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Response
Reflections on the Commentaries

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Our paper (Child & Marinova, 2014) argues the need for an analytical framework that takes both home and host country contexts into account, and the implications that different alignments between such contexts have for the strategies and requisite capabilities of foreign-investing firms. The four commentaries on the paper raise important issues that further the discussion of context and strategy in the globalization of firms. They pose fundamental questions concerning the conceptualization of context, the role of culture in such conceptualization, the linking of levels of analysis (abstract and concrete, macro and micro), and the potential for theoretical generalization from the particular case of Chinese globalizing firms.

The framework we develop is about the combination of contexts from which globalizing firms come and into which they enter. We argue that it is not the single, that is, host or home country, context that should be analyzed, nor even just the simple 'distance' between them. Rather, it is the qualitative interface between the two that is key to understanding what happens when companies engage in outward foreign direct investment (FDI). This interface defines the viable strategic choices for firms and their management to cope with foreign environments that exhibit different degrees of institutional and political affinity to their home contexts. Moreover, we accept that while what we call 'contextual combinations' manifest certain structural features, they are also, as Redding (2014) affirms, spaces company executives have to interpret when formulating policies to exploit advantages and/or compensate for disadvantages. The structured aspect of different contextual combinations implies the presence of certain requirements at firm level in terms of institutional and resource capitals, which foreign-investing firms may or may not have, partly depending on their previous experience and investment. How their decision makers respond to, and negotiate, foreign situations will be coloured by the sense they make of them. As Redding (2014) rightly says, this is where the mindsets held by the parties concerned will come into play and he argues that

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such mindsets should also be regarded as contextual features reflecting cultural, institutional and political logics. In the case of Chinese state enterprise decision makers the latter may be very significant.

So, tacitly we are suggesting that strategies can emerge in these unexplored 'meeting spaces', but the outcome is not predictable from analyzing any single factor or 'part' of the space. Instead, it can only emerge through the meeting of the parts. Consequently, we see the opportunity to explore how the meeting spaces (or the different contextual combinations) can be seen as a new system that can create emergence as suggested by a holistic perspective: emergence of strategies, cultural interactions and changes, new mental models and mindsets, new forms and shades. Their emergence can only be understood when we do not take either a home or host country perspective, nor when we adopt either a firm or institutional level of analysis within a single context, but when we look at the spaces defined by a confluence of all these, and their potential to expose new realities in our understanding of outward foreign direct investment.

Leung (2014) and Redding (2014) both argue for the need to incorporate culture into the analysis. We fully accept this, but would suggest again that an understanding of cultural effects can only be gained if the prevailing institutional and political contexts are taken into account. Institutions contain normative and cognitive pillars that are likely to be culturally informed (whereas the regulatory pillar may be primarily determined by political policies). This implies that to a considerable extent, institutional similarities between home and host contexts will denote reasonably compatible cultures. Thus when there is similarity in the institutions of both home and host country contexts, the level of cultural dissonance experienced by foreign-investing firms is likely to be low. It is in those instances where there is a high level of institutional difference between home and host contexts, without any special government-agreed arrangements to bridge that gap, that the inherited culture of a firm and its members can become a considerable liability. We suggested that Chinese firms in the US provide an example. In cases where there is institutional dissimilarity but the immediate operating context for foreign firms is protected by inter-governmental accords, the culturally-informed practices of the OFDI firms may provide for a viable mode of management without significant modification. If the host country is characterized by considerable institutional voids (weak or non-existent institutions), as are some emerging economies, then one might expect the policies and practices of foreign-investing firms to reflect their imported cultures, especially if they enjoy considerable power by dint of their social investment and employment creation.

At the individual firm level, the ability of managers and staff to handle cultural dissonances constructively will affect their success in adjusting to particular contextual combinations, and this ability is likely to be enhanced by their international experience. The cultural debate in international business studies has been constrained by a tendency to focus on the relevance of cultural 'distance' per se,

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without linking this to wider considerations. We are suggesting that culture is more likely to influence firm strategy and practice when prevailing institutions and political systems are weak or inconsistent, or when the institutional rules and norms of home and host environments conflict.

In his commentary, Murmann (2014) reflects on the tension between framing explanations at a high level of abstraction and increasing the power of explanation by recognizing the specificities of given contexts. He sees this tension is evident in our paper. Meyer (2014: 379) cautions that 'a deeply contextualized approach requires a deep knowledge', which also touches on the issue of how to reconcile abstraction with concrete knowledge. This is an ever present and challenging issue in comparative inquiry. While our paper does link relatively abstract concepts to specific China-relevant examples, we do not claim, as Murmann (2014) asserts, to advance a *theory* that is generally applicable, but rather an analytical *framework* that can in principle be applied to any combination of home and host country contexts. By suggesting that different contextual combinations have specific implications for the competencies that foreign investing firms need to deploy (see Table 2 of Child & Marinova, 2014) we are merely pointing the way to constructive theorizing across macro and micro levels of analysis. This is why we close the article by saying that 'an analysis of home–host country contextual similarities and differences *opens the door* both to more adequate theorizing as well as to a better understanding of policy options for ensuring that foreign investment is successful' (Child & Marinova, 2014: 367).

We focus on the specific case of Chinese globalizing firms, and readily admit that some of their characteristics are specific to that home context. China is one of those emerging economies where political stability is used as a leverage point for institutional creation and development as well as for supporting the global growth of Chinese firms. China, therefore, occupies its own place within the matrix of institutional maturity and political stability. However, the point to stress is that the matrix framework per se is not specific to China. The analysis of contexts in terms of their institutional maturity and political stability is abstract yet by dint of that very abstraction is applicable to any specific situation. Also generally applicable is the proposition that firms face different requirements and have different strategic choices when they face various contextual combinations. Our intention therefore is that the framework and mode of analysis we develop will enlighten understanding of the situation facing firms from any home context operating in any foreign host context.

Nevertheless, we recognize the need to explore in greater detail the constituent dimensions of the two concepts – institutional maturity and political stability – and their likely implications. Various internationally comparative indicators do assess constituent dimensions such as the ten aspects of the institutional environment for doing business monitored annually by the World Bank. If we take institutional maturity, for example, a detailed examination may well show that the home and

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host contexts of a firm have different forms and manifestations of behind-the-scenes political interference and/or bureaucratic obfuscation. Even if firms from a context characterized by high institutional maturity invest into a foreign context of overall similar maturity, there might be qualitative differences in the latter's formal and informal institutions and hence those firms may incur a degree of institutional liability. If so, this could require that managers acquire and/or develop specific institutional capital that can support their outward foreign direct investment strategies. If one takes political stability, there might be considerations such as the strategic importance of a sector to the host or home country, which can lead to that sector being subject to its own specific forms of governmental intervention or more vulnerable to the vagaries of changes in political power. The sector to which a firm belongs may indeed be very significant if its home and/or host country has specific institutions or political policies geared to that sector.

We also deliberately travel across levels of analysis – the national system (macro) and the globalizing firm (micro) in the belief that this is productive of better understanding. We borrow from Rugman the concepts of specific advantages and disadvantages at both country and firm level. One of the key aspects of our argument concerns the types of capital (institutional and resource) that Chinese firms need when engaging in outward foreign direct investment in various contexts. We suggest that the type of capital required depends on the host country context, whereas home country context and status within it (for example ownership in the case of Chinese firms) influences what firms already possess or can readily access. For example, when a Chinese firm invests in a democratic and institutionally mature host country, it will possess low institutional capital. Hence, it will need to acquire institutional capital by learning host country institutional and political rules, norms and values. It will also need to acquire resource capital by employing local executives and technical staff during the learning period following market entry. By comparison, when a Chinese firm invests in a host country that is politically stable by dint of an autocratic form of governance and institutionally immature, that firm will have higher institutional and resource capital. Institutional capital would likely be supplied at governmental level and there would be a limited need to adapt to local institutional and political rules, norms and values, though disregard for them may cause public resentment. However, in politically unstable host contexts, a periodical renewal of institutional capital may be required and there may also be a need to supply resource capital from China, involving importation of higher-level expertise as well as labour. Thus we embed the argument on the types of capital and consequent management strategies in the combinations of political stability and institutional maturity found in home and host countries.

It is encouraging that our paper has triggered four deeply thoughtful commentaries. This suggests that the offering of a relatively modest framework can provoke thinking on a somewhat new plane. We are well aware that some journal editors would have dismissed the paper emphasizing the limitations identified in the four

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commentaries. It is encouraging that others have found it worthwhile to take forward the highlights of our argument. In contemporary organizational and management studies, we are constrained to stay within the conventionally acceptable, unlike the child in Hans Christian Andersen's fairytale who dared to shout 'The Emperor has no clothes'! Too often we see professionally crafted papers with impressive data that nonetheless do not break through the bounds of our understanding. Here, we have tried to revive the tradition of developing a different way of looking at things through an argument that opens up some new space for academic debate.

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