

**AN INSTITUTIONAL AND NETWORK PERSPECTIVE OF
ORGANISATIONAL LEGITIMACY: EMPIRICAL EVIDENCE
FROM CHINA'S TELECOMMUNICATIONS MARKET**

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ABSTRACT

This perspective paper combines institutional and industrial network theory to develop a framework for analysing organisational legitimacy. The main subject, Nokia China, is found to be sensitive to network-legitimizing initiatives, with consequences that accommodate multiple, conflicting stakeholders' interests in China's politically sensitive and protective telecommunications market. This paper offers new insights into institutional isomorphism that is manifested empirically as incremental conformity to regulative processes, institutional norms and cognitive knowledge and meanings within the environment, thereby extending commonly held views of institutional theory to include organisational legitimacy in industrial networks.

Keywords: organisational legitimacy, institutional theory, network theory, China, Telecommunications market

INTRODUCTION

Despite massive investment, foreign firms have struggled to do business in China's telecommunications market. Such failures can be explained by companies' inability to acquire organisational legitimacy. Legitimacy is garnered when firms successfully market their competencies to key stakeholders by conforming to regulative processes, institutional norms and cognitive meanings within the environment. This paper seeks to address the question of how subsidiaries of multinational enterprises (MNEs) create and realise their organisational legitimacy in China's telecommunications market by combining the concept of organisational legitimacy (Suchman, 1995; Deephouse, 1996) with institutional theory (North, 1990; Scott, 1995; Child & Tse, 2001; Loo, 2004) and network theory (Hakansson, 1982; Ford, Gadde, Hakansson & Snehota, 2003;

Hakansson, Harrison & Waluszewski, 2004). The analysis therefore encompasses the international environment through behavioural theory (Cyert & March, 1963; Meyer & Rowan, 1977; Axinn & Matthyssen, 2002) and firms' management of international network resource dependency and activity transformation (Ford et al., 2003; Hakansson et al., 2004).

This paper contends that the determination of organisational legitimacy is made by the network stakeholders to which the organisation must respond and on whom it is dependent for survival. Compliance is usually achieved through commonly used strategies and practices that often emerge from the interactions of firms and other stakeholders within the network (Edelman, 1992). This process of the "collective making of meaning" within the network, shaped by the politics of propriety, trust, and awareness (Nielsen & Rao, 1987) determine the survivability and profitability of these firms and the network. While disagreements between firms are not unexpected, a properly functioning internal network and dynamics that revolve around cooperation and trust with external stakeholders are crucial for maintaining inter-organisational network legitimacy.

The paper contributes to the existing knowledge on organisational legitimacy in two important ways. Firstly, it extends our understanding of organisational legitimacy by introducing the concept of organisational network legitimacy. Secondly, it examines the process of organisational network legitimacy by proposing a theoretical model that combines both institutional and network theory. Both theories are essential for a general definition and understanding of the concept and process of organisational network legitimacy, a point the author will return to later. The model is based on the interaction among: (i) the organisation's reputation, industry and network dynamics; (ii) market, relational, investment, and social legitimacy initiatives (Dacin, Oliver & Roy, 2007), and (iii) the network legitimacy outcome at one point in time and over time. This model is depicted in Figure 1. The paper's central tenet is that, for MNEs without any local market presence, their reputations are crucial in any legitimacy-seeking agenda. This agenda will, however, be influenced by industry and network dynamics exhibiting varying degrees of stakeholders' relational interdependencies, connectedness and conflicting demands. A MNE's reputation and its interface with industry and network dynamics in turn influence the firm's market, relational, investment and social legitimacy initiatives via the firm's complementary nature of resource and activity transformational mixes with other firms in the network. Thirdly, based on a single case design from Nokia China, and through the systematic combining of the main characteristics involving a continuous movement between an empirical world and a model world (Dubois & Gadde, 2002), the paper provides some empirical support for the proposed interactions among concepts comprising the model depicted in Figure 1. Some

managerial implications and concerns for MNEs operating in China's politically sensitive and highly regulated telecommunications market are also addressed.



Figure 1. Organisational legitimacy: An institutional and network perspective

This paper is structured as follows. The next section provides some background on institutional theory and organisational network legitimacy. Next follows a detailed and important contextual-setting description of China's State power, industry, network dynamics and structure. This sets the scene for the discussion that follows in which a conceptual framework is proposed, followed by the paper's research methodology. An interpretative case analysis of Nokia's Chinese organisational network legitimacy is presented, allowing for the manifestation of the company's behaviour (Yin, 2003) at any given point in time and over time. The paper concludes with some final observations on the practical challenges and implications for MNEs pursuing an organisational network legitimacy agenda in China's politically sensitive and highly regulated telecommunications sectors.

INSTITUTIONAL THEORY AND ORGANISATIONAL NETWORK LEGITIMACY

Institutional theory has been widely used in studying the adoption of particular organisational practices or strategies (Meyer & Rowan, 1977; DiMaggio & Powell, 1983; Scott, 1995). A central tenet of institutional theory is that organisations need to achieve and maintain environmental legitimacy, defined as "a generalised perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions" (Suchman, 1995). In order to survive, organisations conform to the rules and belief systems in their environments (Meyer & Rowan, 1977; DiMaggio & Powell, 1983) because this isomorphism earns them legitimacy (Suchman, 1995; Deephouse, 1996). Differences in external environments result in the heterogeneity of organisational practices across countries (Rosenzweig & Singh, 1991; Kostova & Zaheer, 1999; Hadjikhani, Lee

& Ghauri, 2007). Under these circumstances, it could be argued that establishing and maintaining legitimacy in multiple host environments remains one of the most critical strategic issues for MNEs (Kostova & Zaheer, 1999; Kostova & Roth, 2002).

For example, while the rights of publicly listed and privately-owned firms to operate freely is generally not questioned in the West, in China, the basic and wide acceptance of the right of MNEs to operate does not automatically occur. Western companies have therefore failed despite making massive investments (Vanhonacker, 1997; Kurlantzick, 2002) because of inappropriate and ineffective efforts to build legitimacy. Others simply find themselves in a hopeless situation once they are labelled illegitimate (Vanhonacker, 1997). Not surprisingly, firms with higher levels of legitimacy management experience will have a more precise view on what is needed to pursue and navigate a successful legitimacy-seeking agenda. Prior legitimacy experience, in turn, results in more opportunities to enter into future inter-partner alliances and partnerships, presumably due to the development of a firm's reputation and its knowledge of network characteristics. Put simply, MNEs that manage to survive long enough in China are more likely to have conformed to legitimacy pressures, while those that do not conform will not survive.

The type of legitimacy needed by a firm and, in turn, the specific targets or constituents to which a firm must appear legitimate, will be driven by the firm's objectives in a particular context, the dynamics of the environment, and the firm's characteristics (Dacin et al., 2007). In a network environment, firms' legitimacies are linked together by their performance of industrial activities (e.g., marketing, exporting, production and logistics), employment or consumption of various types of resources (e.g., R&D, financial, brand equity, knowledge) or production of other resources (see, for instance, the work by Low, Johnston & Wang 2007; Low & Johnston, 2005). Over time and many interactions, firms become connected together to form a structured network of interdependent relationships and connectedness. As such, new firms seeking network legitimacy confront the liability of newness and foreignness (Stinchcombe, 1965; Zaheer, 1995) because established firms have defined and entrenched roles and/or network identities. These identities and/or roles are reflected in a firm's structural network positions (much like competitive position in the economic marketplace) in terms of the degree of relational interdependencies through resource and activity specialisations. In this way, network structures are as much a process as they are a structure, being constantly shaped and reshaped by the actions of firms (Nohria, 1992; Sydow & Windeler, 1998; Dittrich, Jasper, Valk & Wynstra, 2006).

As previously noted, the determination of network legitimacy is made by the stakeholders to which the organisation must respond and on whom it is dependent for survival. Compliance is achieved through commonly used strategies and practices that often emerge from the interactions of firms with other firms and/or network stakeholders (Edelman, 1992). While disagreements between firms are not unexpected, a properly functioning internal network dynamic that revolves around cooperation and trust is crucial for maintaining inter-firm network legitimacy. If existing inter-firm network legitimacy must change, it is because the network no longer possesses the resources needed to meet stakeholders' changing expectations. Major external structural, regulatory, and institutional changes and expectations may also force these stakeholders' to act. The powerful forces of network conservatism that have successfully internalised these external expectations will therefore come under increasing pressure. This scenario then provides the pretext and context in which new organisational legitimacy is needed and/or existing legitimacy is realigned. In this way, success depends on a firm's ability to match its legitimacies with stakeholders' new and changing expectations — each having an interpretation of what constitutes the firm's network legitimacy.

Broadly speaking, legitimacy may be sought through market, relational, investment and social legitimacy (Dacin et al., 2007). Market legitimacy refers to the rights or qualifications to operate in the market. For a firm that is new to the market, the rights to operate in that market are not automatically given because of the liability of foreignness, especially for firms with low relative standing. A firm may thus seek out an alliance with a legitimate firm in that market to help ensure endorsement and receptiveness by the government, suppliers, or customers (Dacin et al., 2007). To maintain and possibly enhance their market legitimacies, firms also actively seek on-going relational legitimacy through merger and alliances activities with strong local partners. This helps firms navigate the unfamiliar environment better, especially an environment that is undergoing structural changes with frequent government interference. Relational legitimacy also allows for the collaborative pooling of technical, marketing, production and sales resources, thereby sending out strong signals regarding a firm's commitment and worthiness as an attractive relational partner. Any initial negative attitude towards a firm could then be managed better. Unlike relational legitimacy, which is partner-specific, a firm can also seek investment legitimacy, which serves to legitimate the worthiness of the firm's overall business activities. For example, firms that demonstrate a propensity for investing in a market that actively seeks foreign investments and technical expertise (thus mimicking the country's policies) stands a strong chance of gaining the country's endorsement. Finally, a firm also seeks social legitimacy, which will be particularly significant in institutional environments where a socially responsible image is vital for the firm's survival (Dacin et al., 2007). To enhance their social legitimacy, firms

often undertake public welfare initiatives in education and training, and local and regional developments with community organisations and the government. Lacking social endorsements, firm may face oppositions in their efforts to establish market, relational and investment legitimacy.

CHINA'S STATE POWER, INDUSTRY AND NETWORK STRUCTURE

In the last decade, China's economic growth has been unprecedented. Despite the current global financial crisis, China remains a beacon of hope for Western economies experiencing recessions. Economic growth, however, is achieved in an environment that is characterised by government interference, particularly in politically-sensitive sectors like telecommunications. This is due mainly to the nation's desire to become a global technological force (and hence the need to protect the sector) and concurrently create globally competitive indigenous firms. In this sense, and in keeping with the manuscript's contextual network setting, as institutional settings (including any consequential contextual change) within which networks evolve, the State and its institutions have and will continue to provide a framework of rules and regulations within which local and MNEs have to play.

A brief review of the institutionally-focused Chinese political and business literature leads to three important observations. Firstly, the State has historically protected, inspired and nurtured both State and non-State enterprises, though with overall control of resources in a command economy, because the enterprises can produce maximum production and provide more resources for State power. But the State's power structure, with its operation-based economic and political relations, has corresponding institutional costs that are directly related to a State's authority (Yang, 2005). The State therefore represents major sources of uncertainty for firms because it controls critical resources and opportunities that shape firms' industrial and competitive environments (Jacobson, Lenway & Ring, 1993; Baron, 1995). Secondly, as the nation progresses, reforms have not been without institutional costs. While authority is fully retained, institutional costs are zero. However, politics with zero institutional costs do not exist outside of abstract theory (Yang, 2005). Indeed, as the State struggled to impose its authority through coercive commands and the announcement of ambiguous policies, the reforms are coming under increasing global scrutiny since China joined the World Trade Organisation (WTO) in 2001. Thirdly, and despite the rhetoric of a hands-off approach, the reality is that there is more rather than less government interference in business and increased control of enterprises. In the telecommunications sector and similar politically-sensitive sectors, such as resource and aviation, enterprises are seen as only political tools in the passage of economic construction and technological supremacy (see, for instance, the

work by Low & Johnston, 2007). The special type of relationship between politics and the economy means that the political leaders' attitudes and their conduct directly determine the fortunes of enterprises (Yang, 2005).

Amidst the backdrop of these institutional and contextual settings, the capacity of MNEs to generate and implement their legitimacy-seeking agendas takes place. That is, the State has and remains to be the primary driving force for economic, political, social and technological reforms. It is a key institutional agent affecting the operations of firms, particularly State-owned and linked carriers, equipment manufacturers and software developers. More importantly, the State's powerful administrative and regulatory institutions oversee the trajectory of the State's control and management of the telecommunications sector to the extent that the power of these institutions is the same as the market and economic powers (Yang, 2005). Through these institutions, administrative bureaucracy reflects the way that the State manages and retains institutional economic power by way of administrative power. Bureaucracy is in many ways a special monopoly combining State power with market strength in the nation's economic transition (Yang, 2005).

For example, in terms of political hierarchy, the right of access to the telecommunications sector falls under the purview of the influential administrative monopoly, the Ministry of Posts and Telecommunications (MII). The centralisation of control in the MII has, over time, enhanced the State's effort to protect the sector through local and international market exposure and competition. Despite market-oriented reforms, the State has increased its control over companies' businesses through political interference. Rather than stepping back and letting the market operate, the economic and technological reforms in telecommunications continue to have strong political overtures. This is evident in the political appointment of chief executives and top management teams in this sector. In this way, telecommunications enterprises could be seen as nothing more than politically expedient vehicles in the development of the nation's economic construction and technological leadership.

Additionally, the structure of the industries also forms a key institutional sphere affecting the operations of firms in China (Child & Tse, 2001). For a long time, firms and government were welded together into a closed system of networked relationships through social, political and economic ties of State ownerships and reciprocal benefits that took into account the need to control and manage economic performance and nationalist zeal. At the macroeconomic level, political and economic ideology drives the formulation of industrial policy that affects firms' performance — directly through resource allocations and indirectly through concerted efforts in creating a legitimate organisation. While there has been many recent institutional variations and changes in the administrative

structures of the telecommunications sector (Liang et al., 2004; Zhang, 2001), reforms are incremental under the circumstances that the accumulation of the old institution and power structure remain temporarily unchanged. The structures of the sector were made primarily by State powers, and now the State intends to transform these structures (Child & Tse, 2001.) This means that the State will shift to safeguarding its interest in the sector, evident by the latest round of regulatory reforms. These are evolutionary changes that have and will remain the character of these reforms.

Attempts in changing the market structure take time because administrative institutions are deeply politically embedded. Changes are also difficult because they could result in potential increases in unemployment. This may compromise the principles of social pragmatism (Lin, 1998), which could undermine the creation of a "harmonious socialist society" (Schubert, 2008). While pressures from stakeholders will undoubtedly affect institutional reform initiatives, the responses so far have generally been mixed in terms of the timing and speed in which these initiatives are implemented (Luo, Sivakumar & Lim, 2005; Zhang, 2003). While one may question the multi-level networked system of political and economic ownerships and ties that blurs the line between privately owned enterprise and government-linked enterprise, it nevertheless brings about stability in a politically sensitive telecommunications market.

Viewed somewhat differently, the rules of the game in defining the basic rules of competition and cooperation and formulating the ownership structure will remain fundamentally unchanged for now. These are aimed at maximising revenue for the enterprise and protecting the industry and the firm since the basis of economic exchanges between enterprises figures prominently in the nation's transition from a command to a market economy. Under these circumstances, amidst the interwoven network of ever-slowly changing political and economic ideology, subsidiaries of multinational companies must somehow navigate their organisational network legitimacy agenda. This is both intriguing and perplexing at a theoretical and normative level. Fundamentally, they face the daunting challenge of identifying the State's changing political and business ideologies in a transitional economy, including changing expectations as existing networks in the telecommunications market are reconfigured. This is an onerous and complex task, given the nation's deeply embedded institutional norms, values and governances. The lack of transparency processes in the formulation of policies, conflicting national imperatives, and the general absence of uniform copyright and intellectual property law, makes the task seemingly impossible.

CONCEPTUAL FRAMEWORK

In China's transition from a command to a market economy, powerful administrative and regulatory institutions continue to affect local enterprises and subsidiaries of multinational enterprises' performance in their selection of enterprise resource allocations and activity transformation roles. The political hierarchy and the State's interference remains, essentially masking the State's economic reform efforts. These institutional interferences beg the questions of how MNEs develop and manage their organisational network legitimacy-seeking agenda, when organisational legitimacy is produced, and how it is maintained.

To begin with, MNEs face the challenges of overcoming their "liability of newness/foreignness" (Stinchcombe, 1965; Zaheer, 1995) as they seek to conform to unfamiliar Chinese stakeholders' legitimacy expectations. Their market, relational, investment, and social legitimacy tenure will, at best, be slow and incremental in nature, and, at worst, will be relatively short-lived if they fail to conform to these expectations. Their motives are also viewed with suspicion, especially when they do not have records of relational and investment commitment in China. As a core intangible resource, a favourable organisational reputation may therefore mitigate local suspicions over MNEs' motives. Representing the affective or emotional reaction that customers and others have toward a firm, and defined as the overall emotive estimation of a firm by its constituents (Fombrun, 1996), a reputation creates competitive advantage when competitors are not able to match the prestige and esteem a particular reputation creates (Shrum & Wuthnow, 1988). A reputation thus affords the stakeholders an opportunity to evaluate the firm as part of the social construction process. Issues concerning the various legitimating aspects of maintaining a reputation as part of the social construction process therefore cannot be ignored. The interface between a reputation and organisational legitimacy is a work-in-progress.

MNEs also need to analyse the local network dynamics — much like market analysis — starting with an analysis of the existing inter-firm relationships. These relationships stem primarily from MNEs' efforts to match their resource and activity complementarities with other firms in the network to achieve economic benefits. MNEs seeking entry into the network seek similar benefits. But, because not all networks have the same benefits, there is priority among MNEs in seeking out local firms with complimentary assets. The greater the asset complementarities are, the greater the benefits from combining their assets under the rubric of inter-partner alliances, partnerships, technology transfers, sales and marketing agreements will be. Information about potential local network partners is therefore a key resource. This does not, however, understate the significance of developing the ability to assess and predict the complementarities of assets amidst the backdrop of China's economic transition and its implications for

MNEs, particularly with respect to the current and future approved features of institutional practices and norms.

It therefore stands to reason that MNEs' organisational network legitimacies must be continuously justified and re-aligned. This is described derivatively as political, economic, technological, social, and other manoeuvring processes that MNEs undertake to ensure quality and fit with institutional norms, values and beliefs. Following Dacin et al. (2007), legitimacy may take the form of market, relational, social and investment initiatives and/or imperatives. Market legitimacy occurs when a firm tries to establish or maintain its rights or qualifications to operate in a specific market (Dacin et al., 2007). Relational legitimacy is motivated by a firm's desire to increase its attractiveness (Dacin et al., 2007) via strategic alliances and partnerships. Social legitimacy occurs when such firms form partnerships with government and community organisations in tackling social issues (Dacin et al., 2007), such as environmental degradation or training and education. Investment legitimacy refers to the worthiness of a firm's business activities in the eyes of corporate insiders, such as a parent firm's board of directors, executives, venture capitalists and shareholders (Dacin et al., 2007).

RESEARCH METHODOLOGY

This study was based on a single case design that allows for the development of theory through in-depth insights of empirical phenomena and their contexts. Notably, the case of Nokia China uses "systematic combining", where the main characteristics involve a continuous movement between an empirical world and a model-based world (Dubois & Gadde, 2002). Through a continuous interplay between analysis and the data gathered over a period of time, the initial proposed model has since changed and evolved. In this way, the existing theory of legitimacy from an institutional and network perspective has since been moderated and contextualised, especially when new data on the evolution of Nokia's network legitimacy become available. The fact that the Chinese telecommunications sector is politically sensitive and heavily regulated provides good access opportunities to data through readily observable trends, developments via announcements of government policies, and intervention initiatives. This may involve the central government's involvement as the nation strives to become a global technological power. This occurs amidst the backdrop of structural reforms, the nation's obligatory WTO commitments, and the protection of stakeholders' interests. These characteristics thus present the sector as an ideal "critical" or "polar" case such that the "process of interest is readily observable" (Eisenhart, 1989).

Specifically, contextual analytical observations and insights regarding the evolution of Nokia's organisational legitimacy were made possible through publicly available documents via Internet sites, company reports, trade journals, and commentary by industry researchers and analysts. Through an inductive and interpretative content analysis of these materials and through methodological contextualisation via industry experience, empirical descriptions and generalisations were provided. This was achieved through the use of a single case design, focusing on Nokia China, allowing for the study of interactions among the proposed variables and the empirical evidence. Indeed, the case allows for the manifestation of the company's behaviour (Yin, 2003) in terms of its network legitimacy initiatives at any given point in time and over time. The evolving insights suggesting that "findings are unstable over time" do not apply in this case since the author has tried to make the interpretations situation-specific (see, for instance, the work by Dubois & Gadde, 2002). We next examine this process through an inductive and interpretative case analysis of Nokia China (NC).

CASE ANALYSIS OF NOKIA CHINA

Nokia China (NC) established its presence in China in 1985. It is currently the leading supplier of mobile and broadband network systems and mobile phones in China. China also represents an integral part of Nokia's global manufacturing and research and development (R&D) networks, and the company is now the largest exporter in China's mobile telecommunications industry. NC now has more than 50 offices and two R&D centres in China, employing over 4,700 people. It registered an accumulative net sales volume of EUR5,898 million in 2007, an increase of 20% as compared with EUR4,913 million in sales in 2006. These are impressive numbers establishing China as NC's largest market. Put simply, NC, with its strong organisational reputation in wireless mobility, has performed impressively in a highly protected and regulated Chinese telecommunications market. NC's success is due in large part to its ability to articulate and navigate its legitimacy agenda via market, relational, investment and social legitimacy initiatives deemed acceptable to the sector's stakeholders. We next examine some of these legitimacy initiatives.

NC'S MARKET LEGITIMACY

By now, it is reasonable to assume that NC has earned the rights and/or qualifications to operate in China. The company has high relative standing and desirability in terms of its global and local reputation in wireless mobility. In yet another attempt to reinforce its market legitimacy in 2003, NC merged its four existing joint ventures in China. Its largest Chinese joint venture partner is a local company called the Putian Corporation. According to Ouyang Zhongmou,

Putian's CEO, "the merger will not only increase opportunities for us in China, but also allow us to improve our competitiveness outside of China," thereby echoing the nation's drive to be a major telecommunications player. Well aware of the Chinese government's policy to boost its local telecommunication software and hardware telecommunications industry, NC has also over the years explored opportunities to maximise growth and global competitiveness for all of the parties in the local value chain. In 2005, through its cooperation with the government, NC contributed to the creation of an estimated 25,000 jobs among the company's cooperation partners, local sub-contractors and suppliers. With the realisation that China is now one of the largest mobile phone markets in the world, one would also expect NC to increase its market legitimacy efforts, carefully crafting its well-earned Chinese reputational rights. The company will also continue to explore opportunities to cooperate with local industries, partners and government organisations through key relational, investment and social legitimacy initiatives.

NC'S RELATIONAL LEGITIMACY

NC has also actively sought relational legitimacy through alliances and merger activities that allow for the collaborative pooling of local technical, marketing, production and sales resources. In pursuing its relational legitimacy, NC has followed the right wireless technology in conjunction with some of the sector's key stakeholders. For example, in 2005, NC and China Putian agreed to set up a 3G joint venture to focus on R&D, manufacturing and the sales of 3G network solutions for Wideband Code Division Multiple Access (WCDMA) and Time Division Synchronous Code Division Multiple Access (TD-SCDMA). Not only is TD-SCDMA China's home-grown third-generation mobile wireless technology that competes with the US CDMA2000 system backed by Qualcomm Inc. and European WCDMA backed by Ericsson and Nokia, but also through its alliance with China Putian, NC is now working with a company that is among the first companies to pass the TD-SCDMA field trials that were organised by the Chinese Ministry of Information Industry. China Putian is also one of the initiators of the Chinese TD-SCDMA Industrial Alliance and owns the international bidding agent qualification, which is awarded by the Ministry of Commerce.

Earlier, in 2003, Nokia signed an agreement for cross-licensing WCDMA-related patents covering the manufacturing and sales of WCDMA infrastructure equipment globally with Huawei, thereby lowering the threshold of technology transfer. Huawei is China's largest, indigenous telecommunications equipment manufacturer. This milestone agreement allows Huawei to compete in the global WCDMA marketplace, WCDMA being a technology that has been adopted by

the majority of the world's mobile carriers. Nokia's relational legitimacy, which allows for the collective pooling of collaborative technical and sales efforts in the TD-SCDMA space, predates an earlier relationship that NC had with China Mobile, culminating in the signing of EUR580 million frame agreements for GSM/GPRS network expansion in China in 2006. Nokia's strategic cooperation with China Mobile started in 1994. NC thus appears to have carefully crafted and leveraged its relational legitimacy by choosing complementary partners, including China Telecom and China Unicom, the nation's largest telecommunications operator and second largest wireless operator, respectively, through inter-firm sharing knowledge routines that have evolved over time. This has happened despite the disruptive character of emerging wireless technologies that make extrapolations of their eventual market prospects a futile exercise.

NC'S INVESTMENT LEGITIMACY

Besides market and relational legitimacy, Nokia has also legitimised the worthiness of its overall Chinese business activities through its investment legitimacy by adhering to the State's policies, thereby gaining the State's endorsement. For example, while China has historically been seen as a manufacturing and sourcing hub, there are increasing expectations that China is also seen as a science and technology hub. While NC remains one of the largest Chinese mobile communications manufacturers and exporters, the company has also become one of the largest foreign invested enterprises in China, with the merging of its manufacturing joint ventures and the production of CDMA handsets in China in 2003. This merger underscores two key State policies: increased R&D investment in China, especially in 3G technology and particularly in TD-SCDMA, and improvement of the nation's competitiveness globally.

By reaffirming its commitment to TD-SCDMA in late 2008, Nokia made it known that it supports the development of China's home-grown third-generation mobile wireless technologies. As Colin Giles (2008) said at the event, "Our goal is to not only develop TD-SCDMA products that can deliver outstanding user experiences to consumers, but also to work with operators, chipsets providers, developers and all parties along the value chain to support the creation of a vibrant TD-SCDMA ecosystem in China". Earlier in 2006, Nokia announced the construction of its China Campus and the selection of the Beijing Economic-Technological Development Area (BDA) as its location. The campus will consist of Nokia's Chinese headquarters, R&D centres, and mobile phone manufacturing bases. Attendees of the ground-breaking ceremony included Nokia's CEO, officials from the central Chinese government, the Beijing government, the Beijing Economic-Technological Development Area and other Nokia partners. In the latter part of 2007, NC is expected to host over 1,500 of Nokia staff from

R&D, sales and manufacturing operations, pre-production, logistics, sourcing and manufacturing operations. Through these investment initiatives, NC hopes to assist China in realising its ambitions, particularly in wireless mobility technology and handsets. This assistance is what China has been looking for, but has seldom acknowledged until recently.

NOKIA'S SOCIAL LEGITIMACY

China aspires to join the big league of world technology leaders. This is not going to happen anytime soon because of China's low investments in research and development as compared with global telecommunications giants. While there is high incentive to increase R&D spending, there is an even greater incentive for Nokia to help train its citizens. Local manufacturers and carriers could then become more global and powerful, developing their technical expertise and global brand name. The *quid pro quo* is that, while investment in education and training is costly, it is nevertheless necessary if Nokia is to gain the social endorsement of political decision makers and the constituents needed to establish its market, relational and investment legitimacy.

For example, in 2007, Nokia and Tsinghua University announced the establishment of a joint research facility in Beijing that will drive technology development for Asia and the world. As Zhisheng Niu (2007), the Dean of the School of Information Science and Technology at Tsinghua, points out: "China has set itself the goal of developing indigenous innovation, and with four times as many mobile users as Internet users, the opportunities within mobile technology are clear". Another case in point is Nokia's announcement in 2007 of the provision of over EUR6 million to China's rural children. This was the largest corporate investment in pre-school care and education in rural China by Nokia and leading international children's organisation, Plan. The money provided will assist more than 1,200 early childhood care and development programs throughout the country. "Education is a core component of our corporate social responsibility program," said Colin Giles (2007), President of NC when announcing this program. His comment suggested that NC is mindful of its social obligations in creating a healthy and harmonious China. For its part, Nokia was recognised as one of the most respected companies in China in 2004. The award paid special attention to social responsibility, innovation, operations and commitment to the local market.

In sum, this paper offers new context-specific insights into institutional isomorphism which is manifested empirically as incremental conformity to regulative processes, institutional norms, cognitive knowledge and meanings within the environment. More importantly, this study extends commonly held

views of institutional theory to include organisational legitimacy in industrial networks. Through an inductive and interpretative case analysis of NC, isomorphism has been shown to be a central and multifaceted concept of institutional theory (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). Indeed, and as much as possible, NC's behaviours mimic those of key network stakeholders, in unison with its social, market, relational and investment legitimacy initiatives and imperatives. In this way, institutional isomorphism is manifested empirically as "increased conformity" (Westphal, Gulati & Shortell, 1997), albeit incrementally, at the organisational, network and State level. Despite seemingly conflicting and ambiguous demands, commonly accepted relational, investment, social and market strategies and initiatives emerge through interactions with key stakeholders. Crucially, there are strong incentives for NC to conform.

CONCLUDING REMARKS

This paper proposed that organisational network legitimacy plays a central role in the management of NC's success in China's telecommunications market. In a politically sensitive, highly regulated and protected telecommunications market, there is heterogeneity in identifiable market, relational, investment and social legitimacy that firms can bring to the network of interconnected and interdependent stakeholders. These heterogeneities manifest themselves as greater pressures on NC to manage its organisational network legitimacy. In the presence of the nation's institutional contextual settings, industry structure, and constant ambiguity due to stakeholders' conflicting interests, managing organisational legitimacy is therefore both daunting and complex.

Specifically, while building for future legitimacy, NC also needs to exploit its past legitimacy, especially in a nation where history and organisational reputation matters. The emphasis is on constant and effective exploration, balancing and the re-alignment of appropriate market, relational, investment and social legitimacy that demonstrates NC's commitment to the interests of its stakeholders and acquiring legitimacy from them. The criticality of meeting the government's expectations must never be underestimated since the State has historically protected, inspired and nurtured both State and non-State enterprises with the overall control of resources in a command economy.

NC seems to have grasped the many legitimacy initiatives and nuances through its investment in research and development and manufacturing, particularly in wireless mobility technology and equipment. NC has also launched a series of educational and public welfare initiatives, taking the company beyond the realm of only technologically and economically-oriented legitimating initiatives and

relationships. By taking what they do well already in technological innovations and manufacturing and combining it with NC's societal responsibilities, the company has capitalised on its well-established network legitimacy over the past two decades.

Finally, while the NC case represents a "polar" case, thereby limiting the generality of the findings, "systematic combining" of the contextual analysis of data longitudinally provides some empirical support for the proposed interactions among concepts comprising the model depicted in Figure 1. In a transitional Chinese telecommunications sector, where organisational legitimacy is prone to changing over time and is difficult to operationalise for quantitative or qualitative research (Schubert, 2008), our proposed conceptual framework could be ideal.

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