

# Corporate Political Strategy on Three Continents a Managerial Comparative Approach at Global Level Part II<sup>1</sup> – People's Republic of China and Romania

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## *Abstract*

*China and Romania have a common starting point – the planned socialist economy. Depending on the political, historical and geographical situation, and consistent with the options of each of these countries, China and Romania have evolved in different ways in the recent decades from the economic and from the political point of view.*

**Keywords:** *corporate political activity, corporate political strategy, lobby, campaign finance, interest groups, China, Romania.*

**JEL classification:** M14, L21

## **1. What happens in the People's Republic of China?**

Why the People's Republic of China? Because more than 30 years this country recorded an average annual GDP growth of about 10%, because it has the strongest trade balance and probably because it is about to become, in just a few years, the third and then the second economic power world. What is happening in China yet?

Increasingly more Chinese firms, especially large ones, affect decision-making processes of the Chinese government, for the purpose of ensuring and maintaining an encouraging business environment. For various reasons, but mainly due to cultural distinctions, there are many differences regarding the ways in which corporations approached the area of political decisions in China in comparison to other countries.

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<sup>1</sup> The first part of this article was published in the Review of International Comparative Management, Vol. 10, No. 4, 2009, pp. 755-769.

Scott Kennedy, associate professor at Indiana University, published in 2005 an appreciated study on lobbying activities in China.<sup>1</sup> Thus, he shows that if some researchers consider that economic pluralism emerged in China has also generated a political pluralism, so that the heads of various companies are making increasingly large efforts in order to pursue their interests, including through business associations, and many other scholars say that Chinese companies have no intention to influence public policies because they are controlled by the communist state, he finds a third way, by analyzing the complicated and specific Chinese lobbying, a real "puzzle" as he says, a system that does not fit exactly into any of the previous descriptions.

Thus, in the mid-'90, the business environment of China has changed in the direction of accepting private and foreign firms in the Chinese economy, together with the state owned companies, which created a competitive business environment.

Aware of these changes, given the multitude of regulations on businesses, "thousands of rules", as Scott Kennedy says, the companies try to adapt this new environment in their favor, in order to gain competitive advantage and profit. They try, whatever the form of ownership or whether they are Chinese or foreign, to do so through various means, including corrupt ones (corruption has a greater impact at the local level where businesses more easily enter into contact with officials), and even enter specific economic groups, connected by economic interests. They act either directly, or through associations or other intermediaries. Trade associations, shows Kennedy, have influences of different intensities, ranging from one industry to another, and larger firms may influence more easily the government decisions than the small ones.

For example, *China's Nonferrous Metals Industry Association* was presenting on the website<sup>2</sup>, in December 2008, a request to the government for the cancellation of the fee of 17 percent value-added tax on scrap imports. On the same site there was also an announcement about the fact that the government had not yet decided to cancel that fee.

The ways to influence the political decisions in China, as part of the political strategies of the Chinese and foreign corporations as well, are already the subject of the studies of the researchers, both Western and Chinese.

The People's Republic of China has, obviously, a special culture and a particular economic and political system, which impose to the Chinese companies a different approach on how they can influence government decisions. With a single political regime, the communist one, more political orientations are not possible in China. There are no political or electoral campaigns, and there are no sponsors of these campaigns. In China, the issue of influencing the government decisions is taboo, or at least it is secret, not public, even if some companies enter into business relations with government bodies.

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<sup>1</sup> Scott Kennedy, *The Business of Lobbying in China*, Harvard University Press, USA, 2005

<sup>2</sup> <http://www.aluminum.org/AM/Template.cfm?Section=Home&TEMPLATE=/CM/ContentDisplay.cfm&CONTENTID=27486>, accessed 20.01.2009

In the opinion of Gao Yongqiang and Tian Zhilong, after 1980, in the stated process of transition from the planned economy to an economy more market oriented, and as a result of the fact that many companies are still state-owned, and the officials excessively intervene in the business environment, the interactions between government and business are orderless. The two researchers claim that the interface between the government and the business environment is not clearly assigned, as in a typical market economy – as United States – in which the state does not intervene randomly in the economy.

As the activity of the Chinese companies grows in intensity, they pay more and more attention to the corporate political activities, which can bring great benefits on the political or economic level. We must accept that for firms, with different forms of ownership or from different periods of time, there is a close and certain relationship between their strategies concerning the political relations and their political performance.

Wu Wei<sup>1</sup>, from the School of Economics and Management, Wuhan University, Hubei Province, extracts, from a series of news taken from the websites of 76 companies<sup>2</sup> operating in China, key-information regarding the activities of the firms, corresponding to:

- seven types of *political relation strategies*;
- four variables that quantify *political performances*.

We present in Table 1, taken from Wei Wu's article<sup>3</sup>, the key-information resulted from the activities of the 76 firms operating in China, and political strategies identified by the author from this key-information.

Through these strategies, specific to a communist system, firms in China intend, as the United States of America or Russian Federation do, to get a good reputation, a favorable image in the eyes of the public and of the political officials, thus facilitating the communication with policymakers on issues of major interest. Relationships based on trust with the officials of the Communist Party and of the trade associations, and a positive perception from the population can generate economic facilities and smooth any attempt of modeling the governmental policies.

Regarding the political performances of the firms from China, obtained as results of the political relation strategies, Professor Wu Wei identifies, again based on key-information obtained from the news posted on the sites of the 76 firms, four variables which quantifies the corporate political performances:

- Tangible, intangible and relation government resources;
- Political competitive advantage;
- Market performance;

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<sup>1</sup> Wu Wei, „Influence of Political Relationship Building on the Business Activity of Firms in China”, *Singapore Management Review*, 2008, 30,2, pp. 73-93

<sup>2</sup> The firms selected for study by Wu Wei meet some criteria: they had annually sales bigger than 10 billion Yuan and more than 1,000 employees. In addition, the selected firms have a certain influence on policy and news about their current activities is presented to the public on their web sites. Wu Wei studies three categories of companies: state owned, privately owned and foreign companies.

<sup>3</sup> Wu Wei, op. cit., pp. 77-78

➤ Financial performance.

We present in Table 2, taken from Wu Wei's article<sup>1</sup>, the key-information resulted from the news on the types of the activities of the firms in China, and the variables that quantify the corporate political performances, based on this key-information.

**Firms' strategies in China to improve the relations between firms and policy makers**

Table no. 1

Variables	Key Information
Public Welfare Strategy	Scholarship, Public fund, Charitable fund, The Hope Project, Sports, Education, hygiene, health and other public welfare cause, Social welfare, Employment problem, Social insurance, Environmental protection, Relieve the people in disasters.
Public Relation Strategy	Invite, Interview, Government or trade association officials, Ceremony, banquet and meeting, Cut ribbon, Present gift, Congratulatory signature, photo, telegram or speech.
Visiting Strategy	Visit, Interview, Inspect, Government official, Managers of other firms, Representative of Chinese People's Political Consultative Conference.
Participating Strategy	Participate in National People's Congress of Political Consultative Conference, Chinese People's Political Consultative Conference, Government of trade association conference, Legislative conference, Submit formal report to the government.
Publicizing Strategy	Publicize, Learn, Follow, Grasp, Communist Party thought or spirit, Government policy, Speech of government officials.
Party Affair Strategy	Found Communist Party branch or group, Celebrate Communist Party anniversary, Organize the activities of Communist Party Member, Learn Communist Party history or spirit.
Media Strategy	The media, Obtain favorable public opinion, Report their business activities, Create favorable political environment, Influence government policy.

Adapted from Wu Wei, „Influence of Political Relationship Building on the Business Activity of Firms in China”, *Singapore Management Review*, 2008, 30, 2, table 1, pp. 77-78

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<sup>1</sup> Wu Wei, op. cit., p. 79

## Variables that quantify political performance of firms in China

**Table no. 2**

Variables		Key Information
Government Resources	Tangible	Preferential policy, land or taxes. Trade barrier, Quota, Standard setting, Government fund, Bank loan, Professional personnel, Market chance, Policy information.
	Intangible	Quality authentication, Honorary title or name (such as model worker, pacemaker), Political title or name (such as representatives of National People's Congress, Political prestige, image, and reputation, Trademark protection.
	Relation	Private or cooperative relationships with customers, competitors, suppliers, banks, governments, and society, and other stakeholders.
Political Competitive Advantage		Government support of R&D, integration and internationalization activities (such as patent, mergers, technology innovation, global market, etc.), Government policies support (such as exemption from inspection, market access, price adjustment, industry standard, anti-dumping or anti-monopolizing bill, etc.)
Market Performance		Market share, Product sales (such as government contract), New market development.
Financial Performance		Revenue, Sale, Cash flow, Profitability, ROA, ROE, EPS, etc.

Adapted from Wu Wei, „Influence of Political Relationship Building on the Business Activity of Firms in China”, *Singapore Management Review*, 2008, 30,2, table 2, p. 79

Corporate political strategies used in China in order to influence political decision-making process were classified into eight categories. Wu Wei<sup>1</sup> shows the link between these strategies and the corporate political resources on the one hand, and between the same strategies and corporate political benefits on the other hand, as seen in Figure 1.

Some researchers think that China is heading for an unprecedented form of organization, that can be partly explained, the same as in the case of Russia, through a specific corporatism.<sup>2</sup>

<sup>1</sup> Wu Wei, “The Relationship among Corporate Political Resources, Political Strategies, and Political Benefits of Firms in China: Based on Resource Dependency Theory”, *Singapore Management Review*, 28, 2, pp. 85-97

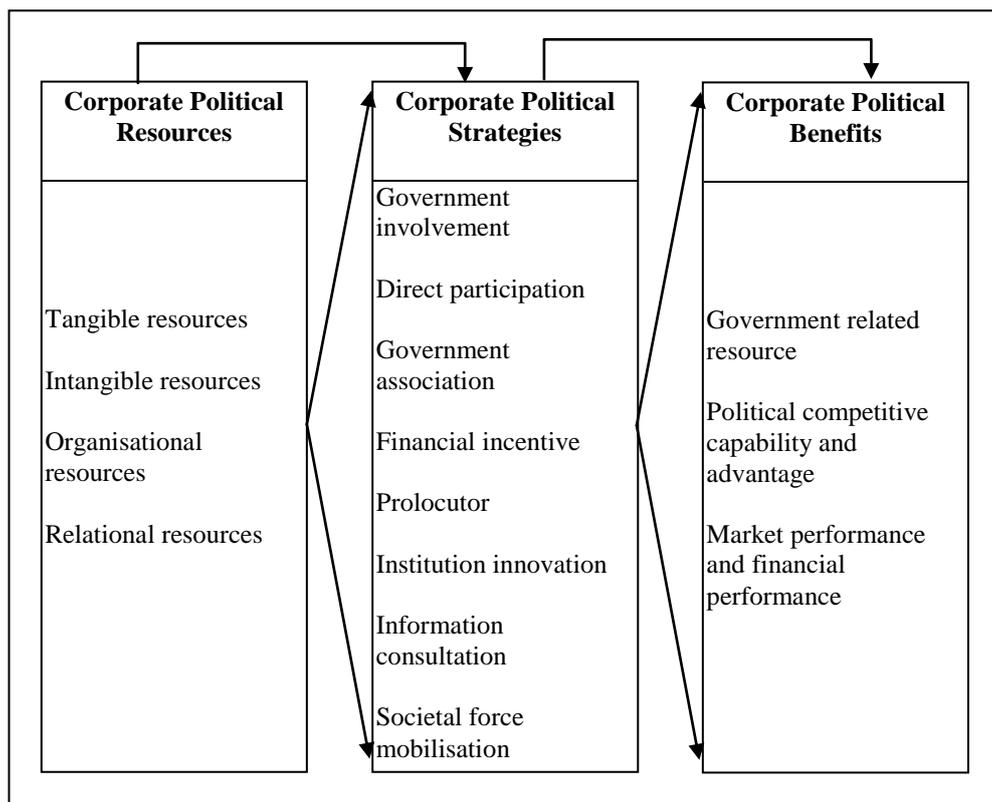
<sup>2</sup> Johathan Unger, Anita Chan, „China, Corporatism, and the East Asian Model, *The Australian Journal of Chinese Affairs*, 1995, pp. 29-53, [http://www.usc.cuhk.edu.hk/wk\\_wzdetails.asp?id=1544](http://www.usc.cuhk.edu.hk/wk_wzdetails.asp?id=1544), accessed 17.02.2009

Jonathan Unger and Anita Chan show that the corporatist mechanism, present in a society, is not necessarily associated with a democracy or a nondemocracy. That is because researchers explain the relations between business and government as specific forms of corporatism both for democratic and for some undemocratic societies, including some communist states.

In *democratic societies* the corporatism might take a liberal or a societal form, characterized by the fact that the parts involved, specifically the state and the professional associations, negotiate in order to find a balance between the interests of the group and the broader interests of the society as a whole.

In *authoritarian societies*, the corporatism is also authoritarian, it is a state corporatism, characterized by the fact that decisions are taken mainly by the state.

In both situations the corporatism is associated with cooperation and consensus.



**Figure 1 Relationship between corporate political resources, corporate political strategies and corporate political benefits in the case of the firms in China**

Adapted from Wu Wei, "The Relationship among Corporate Political Resources, Political Strategies, and Political Benefits of Firms in China: Based on Resource Dependency Theory", *Singapore Management Review*, 28, 2, figure 1, p. 88

A form of corporatism has existed in China, borrowed from the Soviets, even since Mao Tze Tung period, but there was not a form of corporatism that allowed the transmission of the desires of the population to the leaders of the society. This structure started to get a real content after Mao's death. Thus, *All-China Federation of Industry and Commerce* has been among the first professional associations able to have a representative authority in relation to the government. This was the beginning, and in 1993 there were 1,400 national associations, 19,600 industry associations and organizations at the provinces level and more than 160,000 at national level.

In the opinion of Jonathan Unger and Anita Chan, there was a gradual transfer of power from the center to the main actors of these associations and the government continued to oversee and monitor the associations that were between state and society, and this created a structure of state corporatism. At the same time, however, a number of associations have become increasingly independent of the central power, especially during the '80 -'90, when it was made a relaxation of the political pressure. Thus, these associations began to assert their own interests and to require adaptation of public policy to the wishes and the needs of those whom they represented, which led to the idea of a societal corporatism.

## 2. What happens in Romania?

In the context of economic, social and financial crisis that also included Romania from the early beginning of 2009, the relations between business and government, political parties in the governmental coalition and Romanian President have intensified. For example, Renault has asked from the Romanian State a triple aid: a state aid of nearly 70 million Euros for technical center RTR in Titu and for suppliers of Nissan and Dacia, as well as a guarantee of 100 million Euros for a loan from EIB.<sup>1</sup> Romanian banks also ask for state aids, because they are disadvantaged on the financial market by the fact that subsidiaries of foreign banking groups qualify for the aids provided by governments of the states of their parent banks.<sup>2</sup>

Since 1989 the Romanian State has granted different forms of aid and support to companies, such as tax exemptions, debt deletions, many of them controversial, ranging in areas of rent-seeking based on corruption and traffic of influence.

We ask ourselves, however, which steps are taken toward the corporate political activity in Romania, either we are talking about a subsidiary of a multinational company or a local business. And we are referring to the legal political activities of corporations in Romania.

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<sup>1</sup> <http://www.mediafax.ro/economic/renault-romania-a-cerut-ajutoare-de-stat-in-valoare-de-aproape-170-milioane-de-euro.html?1686;4043165>, accessed 13.04.2009

<sup>2</sup> <http://www.zf.ro/banci-si-asigurari/bancile-romanesti-dezavantajate-de-ajutorul-de-stat-primit-de-competitorii-straini-3866408/>, accessed 13.04.2009

There are already several companies in Romania that are consulting private companies in their relations with political officials.

One of them, Central Europe Consulting, with activity in all six EU member states from Central and Eastern Europe, including Romania, declares its availability to help customers (companies) in identification and management of the political and legislative risks in the region "<sup>1</sup>.

In 2005, the executive director of this company (then called, as a result of the association with other companies, Condole Partners) explained the company's activity: "If the traffic of influence implies the acceptance of a sum of money to change a decision at the public authority level, a lobbying firm provides a well-defined medium for communicating, under a contract with clear terms, for a range of services. [...] For example, a pharmaceutical company appeals to such firms to represent its interests in front of the political authorities. The consultants of the firm in question monitor what happens in the Parliament and Government and offer a long term strategy with regard to price developments and legislation."<sup>2</sup>

Roberto Musceni, founder and owner of another lobbying firm, CMC Consulting and Intermediation, said in 2007: "Lobby is not a dirty word. In the United States of America it is normal to talk about lobby. In Europe, not only in Romania, I prefer to speak about "institutional communication". Because people believe that lobby is a kind of illegal activity. But lobby is the only legitimate representation of private interests. This definition is correct and the work itself can be called in several ways."<sup>3</sup>

We ask ourselves: have these companies started their activity in Romania looking for a niche market? We think they have. We believe that companies in Romania, as in other parts of the world, especially those whose business is heavily regulated, see the fields of health, pharmaceutical, energy, banking and insurance, need a dialogue with the legislative assembly. When they feel the pressure from the political level, they try to shape the policy, to change the pressure in a sense that is in their benefit. These changes may be required by an interest group, say an association of pharmaceutical companies which require a specific regulation on imports or exports of medicines. Multinationals blaze the path in terms of lobbying in Romania, because they have the practice of lobbying in other countries, especially in the United States of America.

In Romania there are no discussions about "corporate political activity" because this would indicate, according to some people, the subordination of the political factor to private interests, as the phrase "interest groups" has already entered in the collective outlook as some people, rich and strong, that keep out of the way and practice traffic of influence.

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<sup>1</sup> <http://www.cecgr.ro/>, accessed 12.01.2009

<sup>2</sup> Antoaneta Marin, "Fost director Shell Romania, pledez pentru lobby", *Standard.ro*, susținut editorial de cotidianul de afaceri *Business Standard*, [http://www.standard.ro/articol\\_4141](http://www.standard.ro/articol_4141), accessed 12.01.2009

<sup>3</sup> Sorina Mihail, "Musceni: Lobby-ul nu este un cuvânt murdar", *Capital.ro*, <http://www.capital.ro/articol/musceni-lobby-ul-nu-este-un-cuv-nt-murdar-101674.html>, accessed 14.01.2009

We do not deny that in Romania exists rent-seeking practices, and traffic of influence, and corruption. But there also exists an intense lobbying activity, natural from our point of view. A declared activity of lobbying and advocacy performs, for example, *The Romanian Association of Meat*<sup>1</sup>. This professional association has comprised, since 1999, 50 large companies in the meat industry in Romania, and has announced, as the first point of its mission, "to lobby for a positive influence over legislative decisions". On their website can be visualized several addresses to different ministries and institutions, formulating proposals for changes in specific legislation. And this is just one example of many others.

It is widely accepted that a corporation should respond in terms of management to the factors affecting it from its external environment, and among these are certainly political factors, often with a particularly strong impact on production, sale, competitive advantage, ultimately on the company's profit. It follows that managers can not ignore this influence. They have to anticipate and analyze this sort of influence that generates, logically and inevitably, a corporate political strategy. Therefore, whether the managers hire a firm specialized in lobby activities (to reduce transactional costs), whether they interact with policy makers through their own PR department or through professional associations, a corporation must include strategies of political activity in its management plan, the more necessary as their work is subject to intense regulation.

In Romania, the lobby is not prohibited, as in other European countries (for example, France). But there is no legislation dedicated to this activity and are cited only two laws, Law no. 554/2001 on access to public information and Law no. 52/2003 on decisional transparency in public administration.

Also, private companies participate in the financing of political parties and campaigns of various candidates, independent or members of the political parties.

As in the United States of America and Russian Federation, in Romania parties financing and campaign contributions are legislated. The Law no. 334/2006 on financing the activities of the political parties and campaigns contributions, Article 5, paragraph 4, stipulates: "Donations received from a juridical person in one year may be up to 500 minimum basic gross country wages, on the value of the 1<sup>st</sup> of January of the year." This law was amended and supplemented by GEO no. 98/2008, which introduces a new paragraph in the Article 5 on donations from juridical persons: "In the fiscal year in which they held more elections, donations received from a juridical person in a year may be up to 1000 minimum basic gross country wages, on the value of the 1<sup>st</sup> of January of the year, for each electoral or referendum campaign."

Whether we like it or not, the financial contributions of the private companies in Romania made for the political parties or for the campaigns mean, undoubtedly, a kind of corporate political activity, evidence that these companies are actors not only on the economic market, but on the political market as well, motivated by the same economic reasons, of course.

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<sup>1</sup> <http://www.rma.ro/hrm/2.hrm>, accessed 20.04.2009

In the Article 9, paragraph 1 of the aforementioned Law no. 334/2006 they state: "Political parties are obliged to publish in the *Monitorul Oficial*, Part I, the list of the individuals and businesses who made in a fiscal year donations with a cumulative value that exceeds ten minimum basic gross country wages and the total amount of the confidential donations received until 31 of March next year." This paragraph is meant to ensure a certain level of transparency of these donations.

A spontaneous question arises, paraphrasing Mihail Eminescu in his poem "The third letter": *What makes them fight? What these economic agents want?* For the law stipulates in Article 5, paragraph 9: "It is forbidden for the political parties to accept in any form, directly or indirectly, donations of material goods or money or free services *made clearly in order to obtain any economic or political advantage.*"

It is a fact that more money for the campaign involves an advantage for the party or candidate that gets that money. So, why the companies make the donations? Because they want that party or candidate to have more chances to get good results in elections, to win the elections. Why do they want that? Because they share the political opinions of that party and because they find in the program of the party or of the candidate some benefic economic measures? Or, more specifically, because they are pursuing once again their private interests and hope to gain some economic advantages only for them or for their group of interests? The reasoning might be simple: "I give you money when you need money; you give me economic advantages when I need them." To gain economic benefits in this way is prohibited by law.

In a highly inspired book, *Voting with Dollars*<sup>1</sup>, Bruce Ackerman and Ian Ayres propose a new, ingenious system for campaign contributions in the United States of America: every citizen to receive a card with 50 USD, "Patriot Dollars", and, using ATMs, to deposit the 50 USD in the behalf of a particular party, candidate or interest group. In this way the authors do not propose eliminating money from campaigns, but the democratization of campaign financing and the removal of the special interest money from the game. Maybe we should adopt such a system in Romania.

### **Conclusions**

At least at the desire level, the target is "The good citizen corporation" –, with reference to its involvement in the social issues of the community, a company with Corporate Social Responsibility. But may be a corporation "a good citizen" and still involve in politics? We think this might happen in a few situations, only through collateral beneficial effects on citizens as stakeholders, for example on their employees, but also on the inhabitants of the town in which they operate. Often, however, the collateral effects on people might be negative: the takeover of

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<sup>1</sup> Bruce Ackerman, Ian Ayres, *Voting with Dollars*, New Haven, Yale University Press, USA, 2002

government funds in the benefit of a company means fees collected from taxpayers, or, in some situations, the development of a company with government help affects the environment. Another example of negative effect on people: a company car which is lobbying to impose in U.S. a surcharge to the Korean cars means to carry on a rent-seeking activity. The company will benefit as a result of this tax, but the citizens won't.<sup>1</sup>

Certainly, corporations are not engaged in political activities for altruistic reasons. But, the issue is not that a company has to be altruistic, it can't and it mustn't be, it only has to play by the rules. And the responsibility lies with legislators to establish the rules, whether they are under the pressure of the interest groups or not.

On the other hand, as it can be seen from the comparative analysis between the corporate political activities in four countries, United States of America, Russian Federation, China and Romania, Romania, even if it is at the beginning of the road, is characterized by an economic and political pluralism that would place it, from a structural point of view, closer to the Western democracies.

Without denying that the corporate political activity has negative effects as well, we also have to admit that this kind of activity is a reality of nowadays generated by economic rationality of the market players, especially large companies, heavily regulated. In fact, it is normal to have a feedback from these companies to the laws and regulations with regard to their economic activities and in some cases it is normal for these companies to try to anticipate these regulations in order to create the so much needed competitive advantage.

In order to limit the corruption and the traffic of influence, it is desirable that such corporate political activities, *ex ante* or *ex post*, to be made in daylight, in a transparent and regulated manner.

And the management of the Romanian companies should consider create and develop corporate political strategies, because they are as necessary as all other strategies related to the external environment of the companies.

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<sup>1</sup> Gordon Tullock, Arthur Seldon, Gordon L. Brady, op. cit., p. 43

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