

Research on Enterprise Strategic Reconstruction and Path Selection Based on Institutional Change

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Abstract

With the development of reform and opening-up, institution's increasingly prominent role in the market economy makes research on Institution-based strategy become a hot subject in current management field. Starting from the connotation of Institution-based enterprise strategy, this paper uses the theoretical analysis method to analyze the interaction mechanism between institution and enterprise strategy, enterprise's Institution-based strategy in firm's different life cycle stages and Chinese past thirty years of reform and opening-up institutional experience. Then summarize three widely applicable Institution-based strategy mode. Finally, put forward several route choices of enterprise's Institution-based strategy integrating with the current situation of institutional change.

Keywords: Institutional change; enterprise strategic reconstruction; path selection

1. Introduction

With the rapid development of world economy, strategic environment of modern enterprise presents dynamic, complex and changeable characteristics. Enterprises faced a tough strategic managerial challenge and led scholars to have business management strategy theory further research and thinking. After property strategic view which emphasis the external competitive environment and resources strategic view which emphasis the internal conditions have been born, That the world economy's development highlights the institutional and cultural differences between emerging economies and developed countries caused significant strategic differences gave the birth of another new theory, the Institution-based Strategy View. In 1950s, accompanied by the re-examine of developed countries' economic history in Western , deeper explore of the economic development issues in developing countries and further detailed study to the socialist countries' economic reform institution become increasingly prominent and gradually rising from exogenous variables to the main reason for restricting economic development^[1]. And with the trend of economic globalization, the complex and changeable competition led regulatory certainty and stability bringing from the rules and regulations have become increasingly prominent in the development of market economy, especially for emerging economies, should be pay more attention.

China is a typical emerging economy and is in the critical period of Second economic transformation. That large-scale and high frequency of institutional change happened made a tremendous impact on enterprises' daily production and operation. But now Chinese reform is uneven(for example: Economic reform front, the political system is relatively backward) and have produced a series of imbalanced problems between institutional change and economic development. Under such special circumstances how to fix the problem of institution's lag, understand the interaction mechanism between enterprises and institution and then form a good interacting relationship between business and government, establish ecological competition promoting enterprises' development and institutional change has become Chinese urgent problem need to be solved. Study on Interactive relationship between corporate strategy and institution not only can compensate for the lack of strategic vision research field, provide practical guidance for the development of enterprises, but also provide reference corresponding decision for the formulation of government policies. Therefore, this research is very meaningful.

2. Review on Enterprise Strategy under Institutional Change

From the initial discovery of resource dependency theory, to research on different influences to enterprises from institution and then transition to finding some interacting relationship between organization, strategy and institution^[3], research on enterprise strategy based on institutional change has been driven by the scholars under full swing. In 1980s, Douglass C.North put forward symbiosis theory between institution and organization.

He thought the organization's principal part determined the direction of institutional change, economy institution can reduce transaction and information costs by reducing uncertainty and establish a stable structure between subjects^[2]. Later, as the development of economy people gradually recognized the importance of institution to management. In the 1990s, institution as endogenous variable factors formally be considered in management research. It means the Institution-based strategy began to sprout. In 2000 immerman & Zeitz starting from the perspective of business survival legality made conclusion that businesses such as access to resources were required to comply with certain behavioral expectations of the outside interest groups to acquire the legitimacy of the enterprise strategic choice, and also the institution continuously Embed in this process^[4]. In 2002, after Mike W. Peng formally proposed the concept of institution-based strategy, he made a comprehensive integral research about the institution, organizational and strategic choices. Then put forward the view that formal and informal institutions are involved in strategic choices as organize media. He also issued a statement that "institution as a basic strategy theory could become the necessary part of global strategy document". Then for the emerging economies Mike W. Peng explore the inner contact between government and enterprise and between enterprises from multiple angles in transition economies^[5]; In 2003, Coase formally proposed institution as the key factor of economic growth and became the second theoretical breakthrough after North's view of incentive property institution determining the economic growth. Institution-based strategy with previous resource-based strategy and property-based strategy tied merged into three major theory pillars of strategic management research area.

Chinese scholars have also made corresponding research and mainly focused on the research of influences to the enterprise's strategic choice. Make many-faceted research like institution to strategic alliance, transnational competition, Strategic performance and so on. Research on the impact of strategic alliances, for example, Tie bo Song, Bing Z hong (2013)^[6] made research integrating basic theory of resource-based view and institution-based view conclude that the relationship between performance of cross-regional strategic alliance and regional institution show the inverted U-shaped; Qu bo(2012)^[7] from the angle of institution's basic theory developed that a successful strategic alliances should be the results of phase equilibria and harmonization between the legitimacy of external enterprise and internal legitimacy recognized by internal members of strategic alliances; In respect of International competition such as Liu Guang hua made research from the angle of transnational competition relations, concluded that Institution's complexity and diversity can help enterprises to achieve economies of scale in the international market, and shape a more rational international competition order^[8]. In the respect of enterprise strategic performance such as (Chen Yan, Jiang Yiwei, etc, 2013)^[9] according to the panel data of listed group in 2006-2011, made empirical analysis to the Chinese groups' innovation performance from two aspects of diversified product strategy and the external institution environment concluding that groups and its external institution environment make linkage effect on innovation performance; Liu Hongshen, Wang Tao, etc. from from the angle of host country achieving rationality, concluded that rational enterprise marketing strategy made a significant positively effect on corporate performance and so did institution pressure^[10]; However, after draw conclusion that institution is also the key factor of influencing corporate strategy and performance, how institution precisely affect the corporate strategic choice still remains a vague cognitive concepts.

In 2003, Mike.W. Peng made research on relationship between institution and enterprise strategic choices, systematically summarized enterprises' situation and implications from institution in each stage of institutional transition and then proposed two-stage model in institutional transformation^[11]; 2004, relationship between business organization and enterprise performance in institutional transition process had an empirical study and also an empirical study has been finished for the strategy adopted by enterprises under different types of institution such as SOE, private companies and foreign companies in emerging economies. However, it is worth mentioning that, no matter research theories represented by Mike.W. Peng or other scholars associated theory, theories about how economic institutional changes make influence on enterprise strategic choice or how to make reasonable and suitable strategic choice sill remain a big gap. And existed relative academic research results didn't get in depth. It is obviously detrimental to the further development of Chinese economy in the key period of economic transformation. This paper will do in-depth exploration on the relationship between institutional change and enterprise strategic restructuring under the research theories of institution-based strategy hoping to make up for the lack theoretical research.

And then with institutional change history of China reform and opening up past three decades analysis the characteristics of enterprise strategic choice in each institutional change stage, depth analysis the reason, methods and strategies of enterprise strategic restructuring under institutional change and finally, theory integrate with

practice, combined with the development status of Chinese institutional change make a few relevant path selection and suggestions for the future development of China enterprises.

3. The Connotation of Enterprise Strategic Reconstruction Based on Institutional Change

The so-called institutional change means the dynamic succession process of new institution to produce and old institution to die. It includes optimized on the basis of the old system, the new system gradually replaced or completely replace several ways. Analogy with darwin's theory of evolution, the evolutionary process of institution caused by the demand of evolution and finally, more efficient institution replaced the inefficient institution^[11].According to the institutional change way, there are the "nature institutional change," and "compelled institutional change" two forms. They were separately triggered by the "spontaneous" and "mandatory" institutional changes. Two types of institutional change each have their pros and cons, and then to be complementary. Nature institution change seems consistent with market laws and It's the ultimate goal of market economy development. However, advance of reform only by nature institutional change is slow. As the evolution of biological species it require a long time interacting and adjusting with environment, coupled with some necessary external conditions can be evolution realized. And the compelled institutional change played a institution complement and catalytic role in this process helping to offset the shortage of institution supply led by nature institution change. In each market economy development period two kind of institutional change adjust with each other to meet needs of institution in different situations^[12].In the early periods of market economy market, mechanism is immature. Government and society have strong influence and also is institutional environment to enterprise strategy. Compelled institutional change serves the nature institutional change and ultimately, promote nature institutional change to completely nature institutional change.

Moreover, the study found that enterprise was not blindly adapt to institutional changes. Institution, organization and strategy formed an interactive relationship. On the one hand, the formal and informal external institution can be effect on corporate strategy through organization by defining the relationship between participants, shaping organizational behavior with various activities' "game" rules. Specifically speaking, institution can cause changes on enterprise competitive advantage. And when competitive advantage changed, corporation re-integrated enterprise's own resources and make strategy reconstruction to maximize benefits (As shown in Figure 1); On the other hand, companies can use some ways such as be involved in policy formulation to dynamic transform and shape the environment, such as negotiations with the government to reduce transaction costs, enhance trade protection and bargaining with government to realize the control of institutional changes' direction. In addition, during the process of economic transformation, collapse of old institution and establishing of new institution provided a large number of space for enterprises' activities formed "middle institution" state, in this state, companies lead the legitimacy. After being repeatedly imitate and emulate advanced and high-efficiency action became rules, which also belongs to institutional changes led by enterprises^[13].

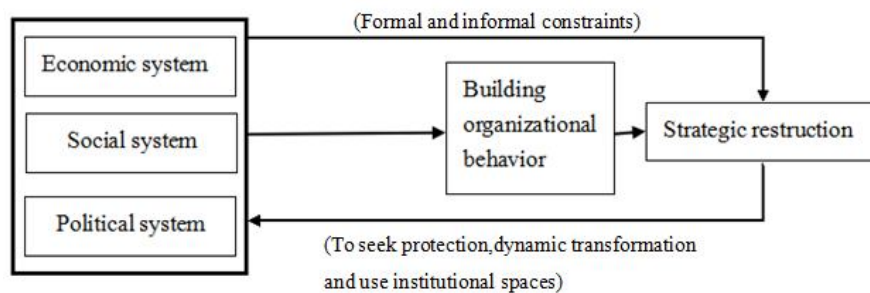


Figure 1: The Interacting Relationship between Institution and Strategy

4. The Enterprises' Institution Strategy Analysis in Life Cycle of Different Stages

Enterprises take corresponding strategies in the process of institutional change to adapt to changes from the external environment. Companies also need to make beneficial strategic choice combined with their own situation

With the help of the corporate life cycle theory this paper divided companies growth into four stages—early-stage, growth-stage, maturity-stage and recession-stage. Each stage enterprises' strategic power, strategic objectives and management issues exist a large difference. Summarized as follows (Table 4-1):

Table 4-1 Enterprises' general Situation in Each Stage of Life Cycle

period	Resource conditions	Strategic goals	Institutional problems
Early-stage	Insufficient	Establish company	Full investigate the institution of business opportunities identify, teamwork, resources to satisfy and other aspects. Institution made the decision of enterprises' foundation.
Growth-stage	Not sufficient	Push company to operational orbit	Conform to the relevant policy-oriented, Achieve enterprises' transition from early-stage to maturity-stage.
Maturity-stage	Sufficient	Realize company's further development	Conform to the relevant policy-oriented and actively lead the policy's development. Realize company's further development.
Recession-stage	More sufficient	Take remedial measures, Return to operational orbit	Make full use of institution, combined with its own resources, gets through the recession-stage.

Each stage enterprises have different situations. Thus, in the process of institutional change, except institutional form and impact, companies also need to further investigate understands their own circumstances. Ultimately, formulate suitable strategy for development of enterprises. Look at following table, from early-stage to final recession-stage companies' resource conditions change from weak to strong and then from strong to weak, strategic goal is changing and each stage companies have different institutional problems to face.

5. Enterprises Institution-Based Strategic Choice Pattern

Today market environment is complicated and changeable. The economic model has been shifted. It became the key problem of economic growth that companies take appropriate measures to deal with changes brought from the institutional environment under large-scale institutional change occurrence. The same institution, different companies suffer from different degrees and aspects of function and impact in institutional change. Assumed that the enterprises have consistent understanding and perception on specific institution, business strategies have been divided into three types according to co-ordinated way between enterprise and institution. As follows:

(1) Passive Strategy

Passive strategy generally appears in two cases, high consistency between organization's strategic objectives and pressure institution or external institution is the formal institution with high mandatory. This strategy is chosen to realize legitimacy of strategy. In this situation enterprises have high dependence on stakeholders, social and economic institution has a strong binding. Passive strategy is a strategy that enterprises have to adopt because of the high binding and also when institution itself is good to the development of enterprises. This kind of strategy adapt to the early-stage and recession-stage in the development of enterprises. At these two periods, various types of materials and resources are scarce and the vitality of enterprises is weak. So enterprises adopt passive strategy catering to institution. At this time not only can enterprises make full use of beneficial institution to promote the enterprises 'solid development, but also enterprises avoid various of risks from the economy market. For example, in 2001, Shi zhengrong made full use of the support from national renewable energy policy establishing "SUNTECH" by virtue of solar photovoltaic technology. In the short space of four years "SUNTECH" became the first private high-tech enterprise listed on the New York stock exchange in American with innovative business model. In addition, company in recession-stage also has weak ability to resist outside world and need to cater to institutional change to find a more beneficial life. In 2005, IACS establish globe Shipbuilding Standard for the first time. The cost of shipping enterprises for shipbuilding has been improved and makes new requirements for the ship design. But for Chinese shipbuilding industry, developed relatively behind and operating with the way of high cost and low price, it is a turning point.

(2) Active Strategy

Active strategy is a strategy that enterprises adopt lobby or directly involved in the establishing process leading institution toward the enterprises' desired direction. In this situation, enterprises have high independent ability, some accumulation and strongly purposiveness to change. It always happened in enterprise's develop and transit stage. At this point enterprises eagerly need a self-driven transformation to achieve business and industry's further development.

Active strategy is also include this situation that the institutional change totally against the object of organization leading that social and economy institution were not suitable to the live and development of company. This time enterprises adopt active strategy maintaining the enterprise and business's developing. Enterprises take active attitude coordinating with relevant state agencies and institutional regulators, finally, strive to restore the normal market order. Economic transformation is the result of long-term efforts of countless politicians and entrepreneurs. Individuals and organizations can use the capitalized social resources to master the rules and seek new opportunities for the development^[12]. Such as 2003, approved by the state council Shanghai free trade zone has been established. Enterprises throw a stone to clear the road to build a operating systems more in line with market development.

(3) Dynamic Strategy

Dynamic strategy is more widely used than active strategy and passive strategy. Different with two strategies mentioned above, dynamic strategy stress interactive and general applicability between company and institution. No matter in early-stage, growth-stage, maturity-stage or recession-stage, dynamic strategy plays a important role in enterprises' management decision. Especially in maturity-stage, enterprises develop smoothly and have higher independence. And when one company adopts successful strategy, other companies made imitation. Then, this strategy became new institution. Finally, enterprises realized one reconstruction to institution. Events in life push the institutional change such as cloud platform event, oil pollution incident and Hu Fulin debt escapade event,etc. Institution conversely improves the operation order. Then, realize continuously dynamic.

6. Analysis for Chinese Institutional Change and Enterprise Strategic Restructuring since Reform and Opening Up

Chinese 30 years of reformation and opening up can be divided into reform and openness initial stage(1978-1983), reform and openness middle stage(1984-1993) and all-round reform and opening up stage(1994-now) according to the character of institutional change. Overall, institutional changes get through from the initial supply-led institutional change to intermediate diffusion institutional change, ultimately to the needs-led nature institutional change. Looking back to the 30 history of Chinese reformation and opening up the economy has made remarkable achievements and has already realized the transition from the initial planned economy to market economy. Now,It is the crucial time of second transformation from manufacturing economy to innovation economy. Institution played an irreplaceable role in the development of enterprises. As the main body of economic transition enterprises is also impact on institutional change. Enterprises and institution are interacting with each other. And finally realize the reform of capital market to marketization, legalization and internationalization establishing eco-competitive market economy^[15]. Today china is still in a strong government, weak market situation. Institutional change maintains top-down oriented and widespread, large-scale institutional change from economic transformation made the market environment of high uncertainty. As the need of enterprise development past institutional change history provided a good model. And relationship between enterprises and institution in Chinese different reform periods also has their own respective rules to follow. Make analysis below:

Reform and openness initial stage: Institutional change has totally belong to top-down mode. Government played a leading role and planned economic system prevailed. Enterprises were dominating by state-owned enterprise and they were main group of vested interests. From the collection of raw materials to production, sales, companies are run by system in the entire process. On other words, no matter in any stage of enterprise's life cycle, enterprises had heavy reliance on old system. In the planned economy enterprises were the main interest groups. Institutional change did not comply with the major groups of vested interests and was disadvantaged to businesses at the time. Institutional changes will be deprived of the right to enjoy all aspects of business and therefore, enterprises as the main body of commodity business had the lowest desire to seek institutional change. Then institutional change was difficult to implement. However, with the development of science and technology the relations of production was no longer adapt to the level of productivity.

The planned economy exposed many shortcomings and in urgent need to reform, characterized that state-owned enterprises have been a loss of large areas and lived beyond their means. Based on the above situation, the state adjust the ownership structure, make moderate relaxation of resources' control and gradually introduce non-public economy. However, the autonomy of enterprises to obtain is still limited. Enterprise strategic restructuring was also under the strong control of government. Enterprises focused on relevant national policies and made strategic reconstruction for further development.

Companies shifted the focus to the informal institution which was far from the state control. Enterprises built sustainable competitive advantage under the constraints from the strategic legalization by diversification strategic plan.

Reform and openness middle stage: Government made further adjust to the system of economic and has conducted system reform in many aspects such as tax system, operation system, etc. It also gradually relaxed the supervision of enterprises and reduced the asylum to the state-owned enterprises. The development of economy toward fully market-oriented direction and business investment activity increased. This time modern enterprise system has been established and then got promotion. It has been the target model of enterprises' development in Chinese reform. Chinese market has been realized from planned economy to market economy. The development of economic globalization began. Enterprises had further developing spaces. When they worked as main body of economic transformation, they consciously promote institutional change toward the development of its favorable direction. Finally, build their own development system and optimize competitive advantage.

All-round reform and opening up stage: Today China is still in the early development of market economy. Society and government still remained outstanding. With the reform and opening up, the non-public economy has become the important part of economic system, market played a more and more important role in allocating resources and enterprises' status of the main economic transformation has been established. The dominant position of the bottom-up institutional changes became more and more prominent. Under the development trend of internalization enterprises began to find themselves location. To deal with the institutional change they improved the dynamic capabilities and actively participated in formulation of relevant laws and regulations. And relationship between government and market became the key point of economy development. Then for establishing coordinate developmental state between enterprises and institution china should change the situation dominated by compelled institutional change and build up ecological system.

7. Path Selection of Enterprise Strategic Restructuring under Institutional Change

China is at a critical period of the second economic transformation. At this time market is highly uncertain. And how enterprises deal with the uncertain factors have become the key part of research. Face this problem, put forward following path selections for enterprise strategic restructuring under institutional change:

(1) Pay more attention to the clarity of property right. Property right relate to ownership of equity income and the efficiency of enterprises' internal management. Only clear property right can realize the consistency between rights, responsibilities and interests and high efficient management. Therefore, first, enterprises should make clear for its own independent property rights making clear of what they own and what they should be responsible for. Then optimize the enterprises' resources distribution and maximize profits; Second, improve the system of property rights in the trad market and promote liquidity of resources on the basis of clear property rights. Then export inefficient resource and import efficient resource. Eventually optimize the allocation of resources and maximize the use of resources.

(2) Improve the capability of independent innovation. The competition in market have been increasingly fierce and put forward higher requirement for the dynamic ability of enterprises adapting to environment. Improve the ability of independent innovation, not only can help enterprises actively adjust its institutional structure and establish a more efficient operating system, but also more flexible to make respond to changes brought from the institutional change. Then enterprises will build a broader developing platform and their market competitiveness also will improve.

(3) Focus on building its own governance structure, interest mechanism and the right distribution mechanism. Companies should accurately positioned themselves by combing corporate values, vision and mission under lager-scale institutional change. Then in changeable institutional environment enterprises positively and effectively build their strategies for own development. With the rapid development of economic globalization businesses are being hampered by global institution.

Paying more attention to enterprises' own system establishing will strengthen the ability to deal with institutional change. And make the more beneficial strategy to the development of company.

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