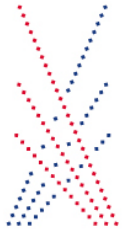

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Informal Institutions Matter: Strategies of Chinese Multinational Enterprises Operating in Australia

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Abstract

Multinational enterprises (MNEs) need to understand and handle various formal and informal institutions in host countries so as to survive and succeed. How MNEs effectively respond to and strategically manage formal and informal institutional characteristics of host countries is an important question of the scholarly inquiry. However, the existing MNE literature has focused on formal institutions and national cultures, the interactions between informal institutions and MNEs have been comparatively ignored. This paper addresses this important but neglected topic based on an in-depth longitudinal qualitative study. It identifies some key informal institutions in Australia, examines how such institutional distinctiveness shapes the behaviour of Chinese MNEs and how they handle such informal institutional differences between China and Australia. Our findings demonstrate that informal institutions of a host country significantly shape the behavior and firm-level strategies of MNEs. The findings challenge some taken-for-granted assumptions regarding the relationship between formal and informal institutions.

Key words: Australia, China, informal institution, institutionalism, longitudinal qualitative study, multinational enterprise

1. Introduction

According to institutionalism, organisations operate in the web of various intertwined institutions spun by social actors (North 1990; Scott 2001). Institutions as "humanly devised constraints that structure political, economic and social interaction" involve both formal and informal rules (North 1990, p.97). It is a consensus view that institutions matter. Institutional networks structure opportunities, generate social expectations and incentives, shape human behaviour and interaction, and determine transaction costs (North 1990). Failing to comprehend institutions adequately and accurately could be costly for both individuals and organizations.

Multinational enterprises (MNEs) investing outside their home countries as a "stranger in a strange land" (Heilein 1961), need to comprehend and handle various formal and informal institutions in host countries so as to survive and succeed. Therefore, how MNEs effectively respond to and strategically manage formal and informal institutional characteristics of host countries is a central question of international business (IB) research. For that reason, IB scholars have shown a growing interest in institutional environment and how MNEs deal with the complex institutional context when operating overseas (Regnér & Edman 2014).

Nevertheless, comprehending and managing formal and informal institutions of host countries can be a challenging task for MNEs. As North (1990, p.107) has noted, it might be less challenging to be precise about the written formal rules, but it is not easy to be precise about the informal institutions since we cannot see, feel, or touch such deep "constructs of the human mind". Given the tacit nature of informal institutions, it is even puzzling for scholars to adequately and precisely identify, interpret, and measure them (Sartor & Beamish 2014), let alone MNEs who tend to be new comers and outsiders in host countries. As a result, although scholars acknowledge that institutions matter, how institutions matter is still less clear (Eden 2010; Jackson & Deeg 2008; Van Hoorn & Maseland 2016). In recent decades, IB scholars have

paid more attention to the relationship between formal institutions (e.g., property rights, rule of law, and anti-trust regulation, etc.) and international business, but the relationship between informal institutions and MNEs has not attracted enough attention (Henisz & Swaminathan 2008; Regnér & Edman 2014; Sartor & Beamish 2014; Seyoum 2011). Although the existing IB literature is full of studies on cultures, culture and informal institution are not an identical construct (Dau et al. 2018; Helmke & Levitsky 2004, 2006; Seyoum 2011). Consequently, there are gaps in our understanding of the relationships between formal and informal institutions, between informal institution and culture, and between informal institution and MNEs. It is not clear to IB scholars the differences between informal institutions and national cultures. Far less is known about interactions between informal institutions and enterprise-level strategies of MNEs; in other words, how informal institutions shape the behaviour of MNEs, and how MNEs respond to informal institutional variations in host countries (Henisz & Swaminathan 2008; Regnér & Edman 2014; Seyoum 2011). However, informal institutions, as "rules in force" (Ostrom 2005), structure social expectations and significantly shape business activities and transaction costs (Sartor & Beamish 2014). Both formal and informal institutions should be comprehensively integrated into the mainstream IB studies.

The void in the IB literature informs this study to explore how MNEs learn to navigate the web of informal institutions in host countries so as to advance our understanding of interactions between informal institutions and MNEs. Given that research on the internationalization of emerging economy multinational enterprises (EMNEs) is still in its infancy, the post-entry internationalization process of EMNEs has not received enough attention in the IB community (Luo & Zhang 2016), it remains unclear how EMNEs handle informal institutions in host countries, especially in developed economies (Klossek et al. 2012). Therefore, based on semi-

structured interviews with 42 Chinese expatriates in eight MNEs operating in Australia, this study examines interactions of Chinese MNEs with local informal institutional characteristics. Specifically, this study explores two research questions empirically utilizing a longitudinal qualitative research method:

1) What are the major Australian informal institutions that shape the relationship between MNEs and their stakeholders?

2) How do Chinese MNEs handle the informal institutional characteristics in Australia?

The remainder of this paper is structured as follows. Section 2 discusses the existing understanding of informal institutions, the relationships between formal and informal constraints, and between informal institution and national culture, aiming to clarify the concept of informal institution. Section 3 elaborates the existing studies on the relationship between informal institutions and MNEs, aiming to make clear the trends and gaps in the literature. Section 4 discusses the methodological approach to data collection and analysis. Sections 5 and 6 provide our findings of major Australian informal institutions and how Chinese MNEs manage the informal institutional environment. The paper is concluded by discussing findings, contributions, implications, and limitations, together with future research directions.

2. Clarifying Informal Institutions

Institution is a widely used concept with different understandings in the social sciences (Hodgson 2006). For North (1991, p.97), institutions are formal or informal "rules of the game"; for Orr and Scott (2008, p.565), institutions are "symbolic frameworks that provide guidelines for behavior, and lend stability, regularity, and meaning to social life"; while Huntington (1969, p.12) defines institutions as "stable, valued, recurring patterns of behavior".

Scholars tend to categorize institutions into formal and informal ones although there is no consensus regarding which traits should be used to distinguish them: written or unwritten formats; conscious or unconscious designs; and enforced itself or by a third party (Helmke & Levitsky 2004; North 1991)? According to Helmke and Levitsky (2004, 2006), formal institutions such as laws and regulations are usually consciously designed written rules enforced by a third party such as the state; while informal institutions such as customs and patterns of action are usually tacit, taken for granted, and unconsciously followed. Therefore, Helmke and Levitsky (2004, p.727) define informal institutions as "socially shared rules, usually unwritten, that are created, communicated, and enforced outside of officially sanctioned channels".

Helmke and Levitsky (2004; 2006, pp.13-18) identified four types of informal rules that define the relationship between formal and informal institutions: complementary, accommodating, competing, and substitutive. Complementary informal institutions are those filling in gaps of formal institutions or urging people to comply with formal rules. Accommodating informal institutions generate incentives for actors to pursue alternative ways without directly violating the formal rules. Competing informal institutions encourage actors to act in ways different from what is expected by the formal constraints; whereas substitutive informal institutions emerge where formal rules are ineffective.

In the literature, the term "informal institution" has been applied to various non-codified and nonofficial phenomena such as taboos, customs, traditions, codes of conduct, civil society, personal networks, norms of corruption, clientelism, routines, patterns of action, and national culture, among others (Levitsky & Helmke 2006; North 1991; Seyoum 2011). Therefore, Helmke & Levitsky (2004; 2006) warn that writers should not treat informal institution as "a residual category" used to describe any behavioral regularities. A behavioral regularity can be

viewed as an institution only if it is rooted in shared expectations of appropriate behaviour and rule-bound, that is, not following the pattern will trigger some kind of social sanction (Knight 1992; Levitsky & Helmke 2006).

Among the various debates on informal institutions, probably the most controversial issue is the relationship between the concepts of informal institution and national culture. There are several competing understandings regarding this relationship. Some scholars view national culture as a major content of a country's informal institutions (Pejovich 1999); some view informal institution and national culture are identical concepts (e.g., Filiou & Golesorkhi 2016). By contrast, some authors believe that these two terms are not synonymous but have a causal relationship. For example, Helmke and Levitsky (2004; 2006) argue that informal institutions are norms rooted in shared expectations or beliefs, whereas national cultures are shared values. Shared expectations or beliefs might have a cultural source, or have nothing to do with national cultures. National cultures can generate, reinforce, or undermine certain unofficial constraints (Helmke & Levitsky 2006). A country's national culture is only one of the sources of its informal institutions, political systems and laws are also sources of informal rules. Therefore, countries with a similar national culture (e.g., North & South Korea) may have different informal institutions, constituting noticeable country differences.

3. Informal Institutions and MNEs

As an integral component of the institutional environment, informal institutions of a host country matter a lot for MNEs operating in that nation. Firstly, without a better understanding of the informal institutions in a host country, an MNE cannot precisely comprehend and interpret its institutional environment. For example, the Constitution of some countries in the world such as the Republic of Philippines and Mexico is very similar to that of the United States (Maddex

1996). However, given the different informal institutions, the business environments of these countries are more different than we had expected. Even countries such as Canada and the U.S. who share language, historical and legal traditions also have profound differences in terms of informal institutions and business environments (Petersen & Pedersen 2002). Moreover, scholars believe that MNE subsidiaries without a better understanding of host country institutions will encounter a higher degree of liabilities of foreignness (Luo & Mezias 2002). Liability of foreignness refers to additional costs incurred by foreign firms when operating in a host country due to unfamiliarity and discrimination that local firms never face (Zaheer 1995). Unfamiliarity places an MNE at an informational disadvantage, makes it fail to follow local institutions or violate local expectations unintentionally (Joardar & Wu 2011). According to social identity theory (e.g., Abrams & Brown 1989), MNEs failing to follow local norms or meet local expectations are more likely to be viewed as outsiders, and are more difficult to earn legitimacy and social support in the host country. Therefore, having a better understanding of local informal institutions is very important for MNEs to avoid embarrassing misunderstanding and missteps (Joardar & Wu 2011). However, the relationship between informal institutions and MNEs/international business has not received enough scholarly attention (Dau et al. 2018; Seyoum 2011).

An extensive literature review reveals that research on the relationship between informal institutions and MNEs/international business has been dominated by two efforts: examining the institutional profile effect and the cultural/institutional distance effect on foreign direct investment (FDI) and MNE strategies (Van Hoorn & Maseland 2016). Studies focusing on institutional profile effects tend to choose one or several variables to represent the informal institutional environment in a host country. For example, when examining the international

expansion of firms, Deng and colleagues (2009) identify Guanxi (a firm's network of relationships in a host country) as a dominant informal institution which is significantly associated with the level of FDI.

Differing from the research focusing on institutional profile effects, studies focusing on cultural/ institutional distance effects shift their attention from institutional characteristics of host countries to the differences between home and host countries in terms of values, norms, patterns of action, codes of conduct, and national cultures. The early literature focuses on the role of cultural distance in international business (Estrin et al. 2009). Cultural distance refers to the difference between two countries in terms of cultural values. Since the early 1980s, IB scholars have examined the cultural distance effect on various FDI decisions in the process of firm internationalization (Beugelsdijk et al. 2018).

Adopting cultural distance as the proxy of cross-country differences has attracted many criticisms since this construct has both theoretical and methodological limitations (Shenkar 2012). For example, some scholars argue that relying on cultural distance to capture cross-country differences is overly simplistic (Beugelsdijk et al. 2018). Shenkar (2012) emphasizes that the cultural distance construct has some hidden assumptions without the support of logic or empirical evidence. One of the hidden assumptions of this construct is that the perceived cultural distance from the home country to the host country is identical to the perceived cultural distance from the host country to the home country of MNEs. However, there is no evidence that people in home and host countries perceive the cultural differences in the same way (Shenkar 2012).

Since the mid-1990s, IB scholars have explored to complement cultural distance with institutional distance (Estrin et al. 2009). Kostova (1996, p.30) defines institutional distance as "the extent of difference/similarity between the regulatory, cognitive, and normative institutions

of two or more institutional environments". Studies on institutional distance and international business reveal that institutional distance between countries matters (Cezar & Escobar 2015; Jackson & Deeg 2008). Research findings demonstrate that the larger the institutional distance between home and host countries, the more difficult for MNEs to obtain local legitimacy and transfer home country practices, the greater the pressure on MNEs for isomorphism and local responsiveness, the higher the liability of foreignness, and the higher the adaptation cost for MNEs (Cezar & Escobar 2015). However, how institutions and institutional distance matter is still less clear and has not been well understood (Eden 2010; Fortwengel 2017; Van Hoorn & Maseland 2016).

Recently, some authors initiate to reflect on limitations of the institutional distance construct. Van Hoorn and Maseland (2016, p.374) criticize that "extant institutional research has failed to make a distinction between the effects of institutional profile and institutional distance on MNEs". Therefore, "current institutional research in international business is unable to explain how institutions matter for MNEs". They argue that variations in institutional distance are different from variations in the institutional profiles of host and home countries. In other words, institutional distance effects (e.g., impact of the institutional dissimilarity between host and home countries) and the institutional profile effects (e.g., impact of low institutional quality in a host country) are two distinct types of effects and require different managerial efforts to deal with. Otherwise, the managerial efforts might be pointless. Harzing and Pudelko (2016) emphasize that the explanatory power of cultural or institutional distance might be limited and call for more attention to the 'context' (institutional characteristics), not just 'distance' (institutional differences).

Given that research on the relationship between institutions and international business has been dominated by examining the effects of cultural/institutional distance on FDI and MNEs, correspondingly, this stream of research has also been dominated by variable-based large-N studies where institutions and institutional differences are just examined as abstract 'variables' (Fortwengel 2017; Jackson & Deeg 2008). Such a research method might miss "a number of potentially important explanations of how and why exactly the particular institutional distance between two countries matters" (Fortwengel 2017, p.798). In practice, MNEs are "shaped by the nature and interactions between particular home and host country institutions" (Jackson & Deeg 2008, p.541), not just by the institutional differences. Therefore, the variable-based method might miss important ways in which institutions shape MNEs and MNEs respond to institutional environments. Therefore, research on international business calls for more qualitative studies so as to obtain a better understanding of the relationship between institutions and MNEs (Doz 2011; Fortwengel 2017), especially the interactions between informal institutions and emerging economy MNEs.

4. Research method

The research questions of this study justify that a qualitative method is appropriate to address our inquiries. Since case studies "represent a methodology that is ideally suited to creating managerially relevant knowledge" (Gibbert et al. 2008, p.1465), this research utilizes a longitudinal, multiple case design to obtain a comprehensive understanding of interactions between informal institutions and MNEs, specifically, the interactions between informal institutions in Australia and EMNEs from China.

Australia is selected as the context of this empirical study for two reasons. First, Australia has been one of the top direct investment destinations for Chinese MNEs in the recent decade.

Since 2013, China has overtaken the US and become the largest source of approved foreign investment (The FIRB report 2017). Second, Australia is different from China on many dimensions such as history, culture, and the economic and political system, among others. Given these striking differences, it is more likely for Chinese MNEs to encounter informal institutions that they do not know or have not experienced before. Hence, Australia constitutes an ideal context to examine how Chinese MNEs interact with local informal institutions.

Following strategies proposed by Yin (2009) and Patton (2002), case firms were selected based on several criteria. First, the case MNE should be information-rich so that authors "can learn a great deal about matters of importance" (Patton 2002, p.169). Therefore, case firms should be a subsidiary, have both Chinese expatriates and local employees, and have operated in Australia for at least one year so that Chinese expatriates should have some sort of close contact with local governments, communities, and employees, and hence have encountered some kinds of local informal norms, routines, and patterns of action. Second, case firms should include both state-owned enterprises and private-owned companies, and cover a range of industries including mining, manufacturing, and energy industries so as to ensure a representative sample. According to Eisenhardt (1989) and Thomas (2004), when a multiple case design is desirable, four to ten cases are sufficient. This study succeeded in gaining full access to some Chinese companies operating in Australia, among which we chose eight case firms that were denoted by MNE1 to MNE8 to ensure anonymity and the case profiles are presented in Table 1.

INSERT TABLE 1 ABOUT HERE

Since case studies are often criticized for the lack of methodological rigor in the process of data collection and analysis (Thomas 2004), this study followed the procedures suggested by Gibbert et al. (2008) to strengthen the validity and reliability of our research. For example, in order to improve internal validity, multiple interviews were conducted with Chinese expatriates who had worked in their Australian subsidiaries for at least one year. Key informants were interviewed several times face to face or by phone to ensure consistency of the interviews and a better understanding of the information. Multiple cases and multiple interviews enable us to examine a phenomenon from different perspectives and obtain more insightful information. In addition, we followed the pattern matching procedure (Gibbert et al. 2008) and compared our identified empirical patterns with the relevant literature. For example, we compared informal institutions identified through interviews with the definition of informal institution to ensure that we identify a true informal institution with social expectations and sanctions, not just behavior regularities. To enhance construct validity, we exercised due diligence to obtain information from different data sources to achieve data triangulation. We collected data through semi-structured interviews, focus group discussions, and documentation, aiming to identify a clear chain of evidence. Online resources including media news and reports were also collected prior to, and following, the interviews to triangulate our empirical data. The external validity was boosted by our multiple case studies since analysing eight cases enables us to pursue analytical generalization, that is, the generalization from empirical observations to theoretical reasoning (Gibbert et al. 2008). Procedures were also adopted to address the issue of reliability. We chose a longitudinal research design; prepared a case study protocol based on Yin's (2009) advice to guide our fieldwork; ensured that at least two researchers participated in interviews and focus

group discussions; and collated notes after each interview and focus group discussion (Eisenhardt 1989).

Interviews and focus group discussions were conducted from 2012 to 2017. Within these years, many fieldwork trips were arranged in the major cities of Australia (such as Darwin, Perth, Sydney, and Melbourne) for data collection. During interviews and focus group discussions, we asked participants to describe some distinctive local norms, customs, and patterns of action they encountered in Australia; the possible influence on the workplace; and how Chinese MNEs handle such local norms and patterned business practices. The interviews and focus group discussions usually ranged from 60 to 120 minutes. Extensive notes were taken during the interviews. A total of 42 Chinese expatriates in the eight case MNEs were interviewed including CEOs, general managers, board members, executive assistants, and heads of department. The profile of interviewees is summarized in Table 1.

We adopted a grounded theory approach to analyse the data (Charmaz 2014). In order to dig out the different layers of meaning in the data, notes of interviews and focus group discussions as well as documents from secondary sources were coded by at least two researchers following the three steps: initial coding, focused coding, and theoretical coding (Charmaz 2014). During initial coding, chunks of data were labelled by each researcher based on the meaning identified from the data. After reaching an agreement among researchers about initial codes, we moved from initial coding to focused coding so as to understand the relationships of initial codes and identify dominant concepts and categories. During theoretical coding, we combined categories into themes so as to capture theoretical connections, ideas and implications. During the coding process, we followed the constant comparative method so as to understand similarities, differences, patterns, and relationships in the data (Charmaz 2014). In order to enhance construct

validity, we compared our data with the literature to identify a chain of evidence and a coherent explanation. This usually led to additional data collection and further analysis. Through memo-writing and comparing the themes emerging from the data with the literature, this study identified some informal local institutional characteristics, their effects on the behaviour of MNEs, and firm-level strategies of Chinese MNEs towards such informal institutions. The findings and tentative arguments were checked by key informants to enhance the validity and reliability of our research (Maxwell 1996). Table 2 offers examples of our data coding process.

INSERT TABLE 2 ABOUT HERE

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5. Perceived informal institutions shaping the relationship between Chinese MNEs and Australian stakeholders

MNEs may encounter various socially endorsed norms of behaviour (attitudes, customs, and conventions) in host countries. To make our research manageable, this paper only focused on some major local informal institutional characteristics that shape the relationship between Chinese MNEs and Australian stakeholders such as government, local communities, and employees. Apart from formal rules such as labor regulations and environment laws, the tacit socially shared norms and conventions also shape the expectations and behavor of MNEs and their local stakeholders. The following are some distinctive informal institutions identified by Chinese expatriates.

5.1. The universalistic government-enterprise relationship. A universalistic government–enterprise relationship refers to a rule-based relationship where regulations, in any situations, are applied to all firms without flexibility. It is the opposite of a particularistic government–

enterprise relationship where policy implementation is easily shaped by specific situations and relationships. Since such a universalistic government–enterprise relationship is prevalent and widely accepted as appropriate and desirable in Australia, it can be considered as institutional. Government officials failing to follow such a universalistic principle may invite public criticism. By contrast, China has a particularistic government–enterprise relationship. Such government–enterprise relationships have their cultural sources since China has a particularistic national culture whereas Australia has a universalistic national culture (Stone & Stone-Romero 2008). The difference in terms of the government–enterprise relationship is one of major institutional distinctions between China and Australia. As the executive chairman of MNE1 explained,

> I find the government–enterprise relationship in Australia is completely different [from that in China]. In our country, governments have the responsibility to help companies within their jurisdiction in order to boost the local economy; no matter it is a state-owned company, a private-owned company, or a foreign firm. If a company encounter serious difficulties, it is natural for them to turn to government for help. Local governments are also ready to help them. But in Australia, government agencies only formulate and follow rules. It is impossible for them to make an exception to rules in order to resolve issues of specific companies[…] For example, our project has suffered from serious delays and overspends in recent years. So we appeal to the Australian government, hoping it allows us to bring more Chinese skilled workers to speed up construction and reduce costs. However, the government has refused to do so.

This sentiment was echoed by the deputy manager of MNE7,

> One of our projects is located around five hundred miles from here [a large Australian city]. The village life of our expatriates working there is too harsh. So the parent company decides to send several Chinese chefs there to improve the quality of life. However, those chefs cannot get a visa since the Australian government insists that these chefs should take an IELTS [International English Language Testing System] test and achieve a minimum overall score of five. However, is a good command of English necessary for such a position? Is it possible that a Chinese chef with English skills is willing to work in that remote area? But it is impossible for the Australian government to bend their visa policies for a foreign firm […] Now our expatriates have to cook for themselves after work even though they do not have enough cooking skills.

5.2. The rights-based corporate social responsibility (CSR). According to McWilliams and Siegel (2001, p.117), CSR refers to "voluntary corporate practices aimed at furthering social goods, beyond the interest of the firm and that which is required by law". Rathert (2016) groups CSR into two distinct categories: standards-based CSR which firms used to meet the minimum legal requirements, and rights-based CSR which firms used to address expectations of stakeholders. Rathert (2016, p.860) defines rights-based CSR as "a set of discretionary social practices addressing stakeholder expectations related to the organizational implementation of legal rules and social norms". Although various definitions of CSR emphasize its voluntary nature as "a form of private governance" (Rathert 2016, p.860), CSR nowadays has actually, in many developed economies including Australia, evolved into a strong informal institution that shape social expectations of stakeholders regarding companies, especially MNEs. MNEs in our time are facing more pressure to engage in CSR initiatives in host countries, particularly in countries with a strong institutional environment which authorizes stakeholders to demand CSR

behaviour from companies. As a result, MNEs are required to undertake more CSR activities to meet the CSR expectations of local stakeholders and obtain legitimacy, especially in an unfavourable institutional environment. Many MNEs utilize CSR adoption as a signaling strategy to demonstrate their commitment to the host country stakeholders and reduce their liability of foreignness (Campbell 2007; Rathert 2016). When discussing the CSR adoption of Chinese MNEs, one manager of MNE4 explained,

> When operating in China, CSR adoption is generally voluntary for most companies without a high-profile name. But in Australia, everyone in the local community knows that you are a foreign company and wants us to contribute more. In order to build a good relationship [with the local community], foreign companies usually conduct more CSR activities than local firms […] It is not enough for a foreign company contributes just the same as a local company if the foreign company wants to earn enough local support.

The deputy manager of MNE5 offered a similar comment,

> In China, usually companies deal only with local governments, not the local community. But in Australia, a foreign company must make the local community happy, not the government. In order to earn local support, our company has invested a lot in the regional health, education, and youth programs […] Some local people have a high expectation [of foreign firms]. Some people often say that Chinese companies have money and should help us do this and do that. However, we are a commercial company and have to survive economically […] what is the scope of the social responsibility for foreign firms?

5.3. The work-life balance preference and the no overtime custom. In China, influenced by the collectivist culture and the paternalist tradition, management hopes employees to treat the company as their family and go all out for their work. Working overtime tends to be viewed as

an indicator of high organisational commitment since it gives the impression of hardworking. Working overtime is quite common in the Chinese workplace even if there is no overtime pay. Apart from employing overtime work as a strategy of impression management, employees in China usually cannot refuse to work overtime if managers ask them to do so. If they are paid for overtime work, many Chinese employees are happy to work overtime for the higher pay rates.

By contrast, in Australia, working overtime is less common given the work-life balance preference shared by the majority of Australian organisations and workers. This does not mean that Australian people never work extra time, but working beyond the normal working hours is the exception, not the norm. Chinese expatriates tend to be very impressed by this work norm. One board officer of MNE1 told the researchers,

> When our company prepared the feasibility report of this Australian project, the team ignored the local work norms and assumed that Australian employees are flexible as Chinese workers in terms of working hours and are ready to work overtime. However, we soon find that local workers are hate to work extra hours, even if our project has been serious delayed and our company promises to pay them at a higher rate.

The Office manager in MNE3 felt the same way,

> The working hours of our company are from 9am to 5pm. If you visit an office of local employees at, say, 5:15pm, you usually cannot find anyone […] You can only find Chinese expatriates in the company after business hours […] I hear a story that local workers are making some pre-made parts using cement and sand. They stop working immediately when it is time for them to go home, leaving some pre-made cement parts unfinished and hence ruined […] They might have a different understanding of organizational commitment.

5.4. Safety and health first in the workplace, not efficiency. All Chinese expatriates interviewed were impressed by how work is carried out in a safe manner in the Australian workplace. In most cases, Australian employees try their best to carry out responsibilities in a safe and secure way, although efficiency maybe sacrificed. That is why Australia is one of the safest places in the world to work. Giving workplace safety and health the highest priority has become a workplace convention in Australia. On the surface, this is because Australia has comprehensive work health and safety (WHS) laws. However, many countries have similar regulations but have not achieved a similar level of workplace safety. As one manager of MNE6 commented,

> It is difficult to say that safety regulations in China are not comprehensive and strict. Many Chinese companies also attach great importance to WHS and have their own safety policies and stipulations. But many companies have failed to minimize the unsafe behavior of employees in the workplace. Safety managers in China often wonder why unsafe behaviour of employees cannot be eliminated in their companies.

The Managing Director of MNE2 was also impressed by this Australian work norm,

> The Australian culture seems incredibly relaxed and Australian people are seemingly very laid back […] However, in the workplace, they are meticulous workers and extraordinarily professional, prefer quality [over quantity], and strictly follow various regulations […] A project which can be done within one year in China might take three years in Australia, but the quality is good and the accident rate is extremely low.

One manager of MNE5 explained his judgment,

> I have been thinking about this for a long time. The good WHS in Australia is not just the result of laws and regulations enforced by government. The major reason is that the whole

> society, not just government, has taken workplace health and safety seriously […] Apart from WHS laws, every industry has codes of conduct to promote best practices and guide employees how to work safely. Every organization also has health and well-being programs of their own to ensure the health and safety of employees. These codes of conduct and organisational programs are not legally enforceable, but people follow them strictly […] The WHS laws are not just laws; they have developed into routines and habits of Australian organizations and employees.

6. Strategies of Chinese MNEs towards local informal institutions

How to deal with informal institutional differences between home and host countries to avoid misunderstanding and missteps is a challenge for Chinese MNEs without enough international experience. In the fieldwork, we found that local institutional characteristics have significantly shaped the behaviour and strategies of Chinese MNEs operating in Australia. Envisaging local norms and customs that shape the expectations and behavior of stakeholders, Chinese expatriates have gradually become less confused and developed some strategies to address such institutional differences between China and Australia.

6.1. Respect differences. Interview findings have indicated that Chinese MNEs have developed positive views about different local work norms and customs and have coped with them in positive ways. As the executive chairman of MNE1 explained,

> In the beginning, there are some complaints that the Australian government is indifferent towards foreign firms and refuses to help us out. Now we understand that such a government–enterprise relationship is just different from ours and not entirely bad. [In China], a good relationship with government agencies is very important for companies. If a

> company is important and has a good relationship with a government agency, sometimes a government agency might make an exception for the company, for example, speeding up a project approval, or granting a subsidy for developing an innovative technology. Therefore, companies in China have invested a lot of time and energy to build relationships with government officials […] But in Australia, things are simple. The rules are there, and [you know government agencies] will never change rules for your company. There is no need for companies to invest much time and energy to build relationships with government. This sometimes makes our life easier.

The manager of MNE4 also expressed her understanding of the norm of no working overtime and did not agree to link working overtime with organizational commitment,

> I view it just as a different work norm. Chinese companies usually hope employees to treat the company as their family businesses and invest all their time into work, including their spare time when needed […] In Australia, people pursue work-life balance and quality of life. Work and life should not influence each other negatively […] This just reflects the difference in terms of how central is work [in people's life]. It is difficult to say which one is better.

6.2. Communicate openly and honestly. Our fieldwork found that most Chinese expatriates had gradually got used to the country differences and handle the differences well. One method adopted by Chinese expatriates was to communicate honestly since they believed that communication is king. Several expatriates interviewed told the researchers that they handle country differences very well through open and honest communication, as the manager of MNE3 concluded,

> Nowadays you can find such institutional differences anywhere, even within one large country […] I do not consider such differences are challenging and difficult to deal with. For me, if I do not know or understand something, I just tell local colleagues that I do not know this as a foreigner and ask them to give me suggestions.

6.3. Learn with an open mind. Most expatriates interviewed seemed open-minded and showed readiness to embrace country differences. As one mine manager of MNE6 commented,

> We have talked about many country differences between China and Australia [...] I think many differences are neutral, neither good nor bad, just different; some are good. For example, the Australian style [of management] is less hierarchical; Australian companies have turned the official WHS regulations into routines of employees; and the relationship between government and companies is simple; and the like. We should learn something from such differences.

Our fieldwork found that all case firms had attached importance to learning. Headquarters often sent staff to their Australian subsidiaries for training and accumulating international experiences; subsidiaries also arrange local staff to work or attend training programs at headquarters to improve their understanding of Chinese values and business cultures. As a board officer of MNE6 had explained,

> We understand learning is important to reduce misunderstanding and enhance trust […] Learning should be mutual, learn from each other. Learning should also be comprehensive, not just to learn technologies and management. We learn technologies, management, culture, and business practices. Such mutual learning is helpful. For example, the best practices of WHS management in this subsidiary have significantly improved the safety management of our parent company in China.

6.4. Go native. Case companies also made an effort to adapt their behaviour and business strategies to the local institutional environment. Chinese expatriates interviewed told the researchers that their companies did not invest much time and energy to build a close relationship with government agencies in Australia when they understood the nature of government-enterprise relationship. In addition, case companies also adjusted the schedule of project to fit the work-life balance preference and the no-overtime working-time norm. Moreover, given the high CSR expectation of local stakeholders, case MNEs changed their CSR behaviour and actively engaged in explicit CSR activities. One manager in MNE1 told the researchers:

> According to our Chinese culture, people should engage in philanthropic activities anonymously, that is, doing good deeds without leaving one's name. Otherwise, you are viewed as selfish since your charitable actions might be only for your own good, in other words, doing good to earn a good reputation is not true kindness […] However, when local people demand that foreign companies must contribute [to the local community], you have to let everyone know what your company has contributed so as to obtain social support […] So we learn from other companies and release a sustainability report every year to make public all our CSR activities.

When Chinese MNEs knew that Australia had a tradition of caring for Aboriginal people and respecting Aboriginal relics, they incorporated such a custom into their management practices. The CFO of MNE8 told the researchers,

> Aboriginal relics can be any materials [that prove the use of an area by Aboriginal people], including scarred trees or stone tools, and something like that. It is very difficult to identify such materials with cultural marks […] As a mining company, we set up a team to work with Aboriginal people to protect such sites. We also train local Aboriginals to increase their

employability and provide jobs to them […] We do so is not just to follow the laws, but to act upon the local customs and show our respect to the local cultures and communities.

6.5. Manage locally. Research showed that MNEs had two options to manage their subsidiaries in situations with high cultural and institutional differences: pursuing high control to reduce dependence upon local managers; or choosing low control and relying on local agents (Shenkar 2012). Australia is quite different from China. Case Chinese MNEs had been struggled to find a proper way to manage their Australian subunits. For example, MNE2 and MNE6 had went through a process from high control to low control; and MNE1 had even experienced an exploration from low control to high control, and then returned to low control as a way of compensating for the lack of local knowledge. One board officer of MNE1 described the process to the researchers,

Our firm has bought several companies through acquisition in Australia. In the beginning, the parent company sent many managers from China to cover most of the key positions and attempted to run the subunits in the Chinese way […] However, given the noticeable national differences in thinking modes and behavior patterns, using too many expatriates has led to inefficiency, especially when expatriates lack of local knowledge and do not know how to deal with local stakeholders such as trade unions […] Therefore, the head office has changed the policy from high control to low control, localized all key positions in which Chinese managers lack experience and local knowledge, such as human resource management, workplace health and safety, environmental protection, public relations, and the like.

7. Discussion and conclusion

This study seeks to explore host-country informal institutions that shape the relationship between MNEs and local stakeholders. Four local informal institutions were discussed, including the universalistic government-enterprise relationship, the rights-based CSR, the work-life balance preference, and the norm of placing work health and safety first. These norms as constraints that structure behavior are prevalent and widely accepted as appropriate and desirable patterns of action in Australia, and hence can be viewed as institutional. Although these norms shape the expectations of local stakeholders and the relationship of MNEs with government, local communities, and employees, they are tacit and taken for granted. MNEs and local stakeholders failing to follow these conventions may invite public criticism or social sanction. This study also examines the potential influences of informal institutions on the behaviour of MNEs, and how Chinese MNEs deal with the informal institutional differences between China and Australia.

Our findings demonstrate that informal institutions of host countries, if not more significant, are as important as the host-country formal institutions and national culture for MNEs. Informal institutions structure social expectations and attitudes, shape behaviour and management styles, and influence interaction and relationships. Without a correct understanding of informal institutions, an MNE could not comprehend the local institutional environment accurately. A better understanding of informal institutions in host countries can help MNEs make the right decision and avoid embarrassing misunderstanding and missteps.

This research makes several theoretical contributions to the literature. First, it is among the first to analyse informal institutions in a host country and examine the interaction between MNEs and informal institutional characteristics based on first-hand qualitative evidence. Second, this study advances our understanding about the relationship between informal institution and

national culture. Our analysis reveals that informal institution and culture are not synonymous. Culture is one source, but not the only source, of informal institutions.

Third, this research also enriches our understanding of the relationship between formal and informal institutions. Helmke and Levitsky (2006, pp.13 -18) identified four types of relationship between formal and informal institutions: complementary, accommodating, competing, and substitutive. Such an understanding is based on some hidden assumptions: informal institutions are less important than formal rules; they only serve as a subsidiary which fills gaps of formal regulations or modifies formal rules; informal institutions emerge only when formal rules are ineffective; and informal institutions function well only when the formal institutional environment is weak and unsuccessful. However, our study demonstrates that informal institutions can emerge in a strong institutional environment. For example, all the four informal institutions identified in this study emerge as results of a strong regulative environment. Without the support of formal regulations, no one knows whether these informal norms can emerge and function well or not. Conventional wisdom tends to assume informal institutions complement and enhance formal institutions, not vice versa. This research reveals a new relationship between formal and informal institutions, that is, strong formal institutions foster the emergence of similar and related informal institutions. Moreover, our study demonstrates that the emergence of informal institutions may foster people to comply with similar and related formal institutions. For instance, without the norm of prioritizing work health and safety in the Australian workplace, the Australian Work Health and Safety Act might have not been strictly followed by Australian companies. Therefore, formal institutions should be sublimated into informal norms to ensure a high level of compliance. Sublimation here refers to the process of internalizing legal requirements into taken-for-granted patterns of action through socialization.

This study has implications for government, MNEs, cross-cultural educators, and IB scholars. For government, the relationships between formal and informal institutions can help government improve the enforcement of formal rules. Given that formal rules cannot function well without the support of informal institutions, and informal norms can emerge from a strong regulative environment, government can improve the effectiveness of formal rules through influencing or cultivating informal norms. For example, in order to help companies to manage work health and safety effectively, the Safe Work Australia, a government agency, formulates various Model Codes of Practice to guide people to handle WHS issues. These codes of practice are not legally enforceable, but have fostered the Australian society to form some WHS routines beyond the requirements of WHS laws.

For MNEs and cross-cultural educators, our research demonstrates that informal institution and culture are not the same, and informal institutional characteristics of host countries shape the social expectations and behavior of local stakeholders. Therefore, MNEs and cross-cultural educators should pay enough attention to such informal constraints, not just focus on the national culture and formal institutions of the host country. In addition, our research also helps new investors understand some major Australian informal institutional characteristics and generate strategies to address the complex local institutional environment.

For IB scholars, our study demonstrates that qualitative research can provides rich information regarding how informal institutions and MNEs interact in a host country. Exploring interactions of informal institutional characteristics and MNEs based on qualitative data can enrich and deepen our understanding of the institutional environment in host countries and the behavior of MNEs.

The major limitation of this research is that it is mainly based on perceptions of Chinese expatriates. To enrich and triangulate data, it is better that the study also interviews local managers, employees, government agencies and local communities. Future research can improve the research design and conduct interviews more comprehensively. Interactions between MNEs and local institutional characteristics are a rich ore for IB scholars. Future studies can identify more informal institutions in major FDI destinations and more firm-level strategies of MNEs addressing country institutional differences. IB scholars can also operationalize some major informal institutions, and compare the strategies of MNEs with different country of origins towards an informal institutional characteristic in host countries.

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Table 1 Profile of case Chinese MNEs and interviewees

Case MNEs	Industry	Ownership	Year of investment in Australia	No. of expatriates	Entry mode	No. of interviewees
MNE1	Mining	Listed company	2006	68	Greenfield	7
MNE2	Energy	SOE	2008	12	Greenfield	4
MNE3	Mineral resource	SOE	2009	15	M&A	3
MNE4	Mining	POE	2008	10	Greenfield	2
MNE5	Manufacturing	Listed company	2007	75	JV	7
MNE6	Coal & coal chemical	Listed company	2004	18	M&A	8
MNE7	Mining	SOE	2009	9	M&A	5
MNE8	Metallurgical	SOE	2008	16	Greenfield	6
Total						42

Note: SOE: State-owned enterprise; POE: Private-owned enterprise; JV: Joint venture; and M&A: Mergers and acquisitions.

Table 2 Examples of the coding process

Examples of interviewees' words	**Initial codes**	**Focused codes**	**Theoretical codes**
•The government–enterprise relationship is completely different from that in China •Governments have the responsibility to help companies •In Australia, government agencies only formulate and follow rules •It is impossible for the Australian government to bend their visa policies for a foreign firm •The relationship between government and companies is simple	Government–enterprise relationship	•Different government–enterprise relationship in China and Australia •The universalistic government-enterprise relationship in Australia •The particularistic government-enterprise relationship in China	A local informal institution: the universalistic government-enterprise relationship
•CSR adoption is generally voluntary for most companies •Doing good to earn a good reputation is not true kindness •Not enough for an MNE to contribute the same as local firms •Some local people have a high expectation of foreign firms	CSR	•A new type of CSR •The standards-based CSR •The rights-based CSR	A new local informal institution: the rights-based CSR
•Chinese workers are ready to work overtime •Working beyond the normal working hours is the exception, not the norm •Stop working immediately when it is time for them to go home, leaving some pre-made cement parts unfinished and hence ruined •Local workers are hate to work extra hours	Work Overtime	•Different attitudes towards working overtime • Different attitudes towards work-life balance • Companies as the family of employees •Different work norms	A local informal institution: the work-life balance preference and the no overtime custom