



Graduate
School of Management
St. Petersburg University



St. Petersburg University
Graduate School of Management

WORKING PAPER

A. Panibratov, X. Chen

**St. Petersburg University
Graduate School of Management**

St. Petersburg, 199004, Russia,
Volkhovskiy Pereulok, 3

**THE ROLE OF INFORMAL INSTITUTIONS
IN THE INTERNATIONALIZATION PROCESS
OF CHINESE AND RUSSIAN FIRMS**

17 (E) – 2018

www.gsom.spbu.ru

Saint Petersburg
2018

St. Petersburg University
Graduate School of Management

WORKING PAPER

Andrei Panibratov, Xinchuan Chen

**THE ROLE OF INFORMAL INSTITUTIONS
IN THE INTERNATIONALIZATION
PROCESS OF CHINESE
AND RUSSIAN FIRMS**

17 (E) –2018

Saint Petersburg

2018

A. Panibratov, X. Chen

The role of informal institutions in the internationalization process of Chinese and Russian firms. Working Paper # 17 (E) 2018. Graduate School of Management, St. Petersburg University: SPb, 2018.

Keywords and phrases: informal institutions, internationalization, Russia, China, firms.

Abstract: The paper provides the review of the role of informal institutions in two emerging market contexts, China and Russia, and identifies its influence on firms' internationalization process. In the process of internationalization, Chinese and Russian firms have always been affected by their informal institutions. Informal institutions in Chinese and Russian context affect overseas operations such as production, sales, and service of the companies. The research claims that informal institutions such as values, ethics, and habits influence Chinese and Russian firms the process of internationalization in Russia and China but operate differently depending on the context that can be explained by a country specifics. By analyzing and comparing the influence of informal institutions on firm's internationalization in researched countries, we re-evaluate its impact in emerging market countries.

Andrei Panibratov, Doctor of Economic Sciences, Professor, Strategic and International Management Department, St. Petersburg University
e-mail: panibratov@gsom.pu.ru

Xinchuan Chen, Doctoral student, research fellow, Graduate School of Management, St. Petersburg University
e-mail: 784971175@qq.com

Contents	
Introduction	4
Institutions, informal institutions and institutional environments	5
The three modes of institutional environments and firm internationalization	8
Research goal	9
The impact of institutions on the internationalization of firms	9
Informal institutions and Chinese and Russian firms' internationalization	13
Dissertation methodology	18
Expected results.....	19
Contribution to theory	19
Conclusions	20
References	21

Introduction

Since the late 1980s and early 1990s, more and more local firms have begun to implement their international expansion strategy with the encouragement of their home-host governments while entering foreign countries in emerging countries, business is also growing. Although transaction cost theory, social network theory, resource-based view and entrepreneurship all have substantial explanatory power on the phenomenon of internationalization of firms, the institutional theory's strategy for domestic and foreign firms in emerging market countries and the impact of performance is more pronounced (Wright, Hoskisson, 2005). For example, Kiss et al. found that institutional theory is the theoretical perspective that has led to the most frequent use of internationalization research in emerging market countries (Kiss, Danis, Cavusgil, 2012). The critical point of the institutional theory is to emphasize the importance of the interaction among the social, legal and political environment in the country in which the practice and operation are organized (Gaffney, Cooper, Kedia, 2014). The strategic choice of the internationalization of firms in emerging market economies is the result of the dynamic interaction between the organization and the institutions (Yamakawa, Peng, Deeds, 2008). Our research argues that the role of informal institutions as well as formal ones is central to understanding the functioning of corporate governance. Estrin et al. analysis is based on the Helmke and Levitsky framework of informal institutions and focuses on two related aspects of corporate governance: firm ownership structures and property rights; and the relationship between firms and external investors. They argue that for China, 'substitutive' informal institutions, whereby informal institutions substitute for and replace ineffective formal institutions, are critical in creating corporate governance leading to enhanced domestic and foreign investment. In contrast, Russia is characterized by 'competing' informal institutions whereby various informal mechanisms of corporate governance associated with corruption and clientelism undermine the functioning of reasonably well set-out formal institutions relating to shareholder rights and relations with investors (Estrin, Prevezer, 2011).

Scholars have started to pay attention to the application of institutional theory in international business research (Kiss, 2012), but they have failed to give more concrete and detailed suggestions for future research from the perspective of institutional theory. This research gives a comprehensive review of the concept, classification and impact of institutions, the role of the informal institutions in the internationalization process of Chinese and Russian firms. This research also gives a comprehensive review of the active role of emerging market firms in the research of informal institutions creation, maintenance, and change for the future research.

Institutions, informal institutions and institutional environments

Veblen defined the institution as: "Institutional systems are essentially the general ideological habits of individuals or societies concerning certain relationships or certain roles, and lifestyles constitute the development of society at a certain period. The generalization of the system adopted at a certain stage, so from a psychological perspective, it can be described as a popular mental attitude or a popular theory of life (Veblen, 1899)." He is the first person who defined the institution in the old institutional economics (Hodgson, 2004). Rutherford said: "If we are to find a universal rule that applies to all so-called behaviors that belong to the 'institution', we can interpret the institution as a collective behavior that controls individual behavior (Rutherford, 2006). Schultz also explained his understanding of the institution in 1968. He said, "I define an institution as a kind of behavioral rule that involves social, political, and economic behavior (Schultz, 1968)."The institutional definition of Schulz and Commons is essentially the same. Schultz also explained his understanding of the institution in 1968. He said, "I define an institution as a kind of behavioral rule that involves social, political, and economic behavior (Schultz,1968)."The institutional definition of Schulz and Commons is mostly the same.

Douglass C.North is the most defined institution in the new institutional economists. In the book "Structure and Change in Economic History", "Institution, Institutional Change, and Economic Performance" and other books, the institution is defined (North, 1990). It is only that the wording is different. The essence is the same, that is, the institution is a kind of "institution", which the rules governing personal behavior."

Other institutional economists, such as the German scholars Ke Wugang and Shi Manfei, and the Japanese economist Aoki, Masahiko (Aoki, 2001) did not define the institution as substantively different from their predecessors. Therefore, to sum up, in the opinion of the old and new institutional economists, the institution is nothing but the various rules and constraints that restrict and regulate individual behavior. This definition has been widely accepted by the academic community.

The word institution has a broad interpretation and a narrow interpretation. In a broad sense, the political, economic, and cultural institutions formed under certain conditions are systems, such as political institutions, economic institutions, socialist institutions, capitalist institutions, and so on. In a narrow sense, it refers to a system or unit of work that requires all members of the subordinate to comply with the work procedures or operational guidelines, such as the work institutions, financial institutions, routine institutions, teaching institutions, and so on. The institution allows all members of a group or unit to jointly comply with certain business procedures and guidelines for action; thus guaranteeing the completion of tasks or goals. There are many types of institutions, and the nature of work varies from one front to the other, from

department to department, and from unit to unit. The situation is very different, and the institutions are different.

Table 1 The concepts, levels, classifications and features of the institution

Perspectives	Concepts	levels	Dimensions	Features
Economics (North, 1990)	Institutions are the rules of the game in the society or, more formally, are human-designed constraints for organizing human interaction.	Local institutions; State institutions;	Formal institutions; Informal institutions;	Scarcity Uncertainty
Sociology (Scott, 2008)	The institutions are a multifaceted social structure made up of symbolic elements, social activities and material resources and provide guidance and resources for taking, prohibiting and binding actions.	International institutions	Mandatory institutions; Normative institutions; Cognitive institutions	Diversity

Source: from North (1990) and Scott’s research results (2008).

The modern study on the definition and composition of the institutions mainly includes the economics perspective represented by North and the sociological perspective represented by Scott (as shown in Table 1). In the North's opinion, institutions are the rules of the game in a society or, more formally, are human-designed constraints for organizing human interaction (North, 1990). Scott thinks that the institutions are multifaceted and enduring social structure made up of symbolic elements, social activities and material resources, and provides guidance and resources for taking, prohibiting and binding actions (Scott, 2008). The study of institutional theory from the perspective of economics divides the institutions into formal institutions and informal institutions. The formal institutions involve the rules that economic participants have to follow; the informal institutions is a natural constraint on people's interactions, which can not be codified but reflects the norms, beliefs and values shared in society (North, 1990).

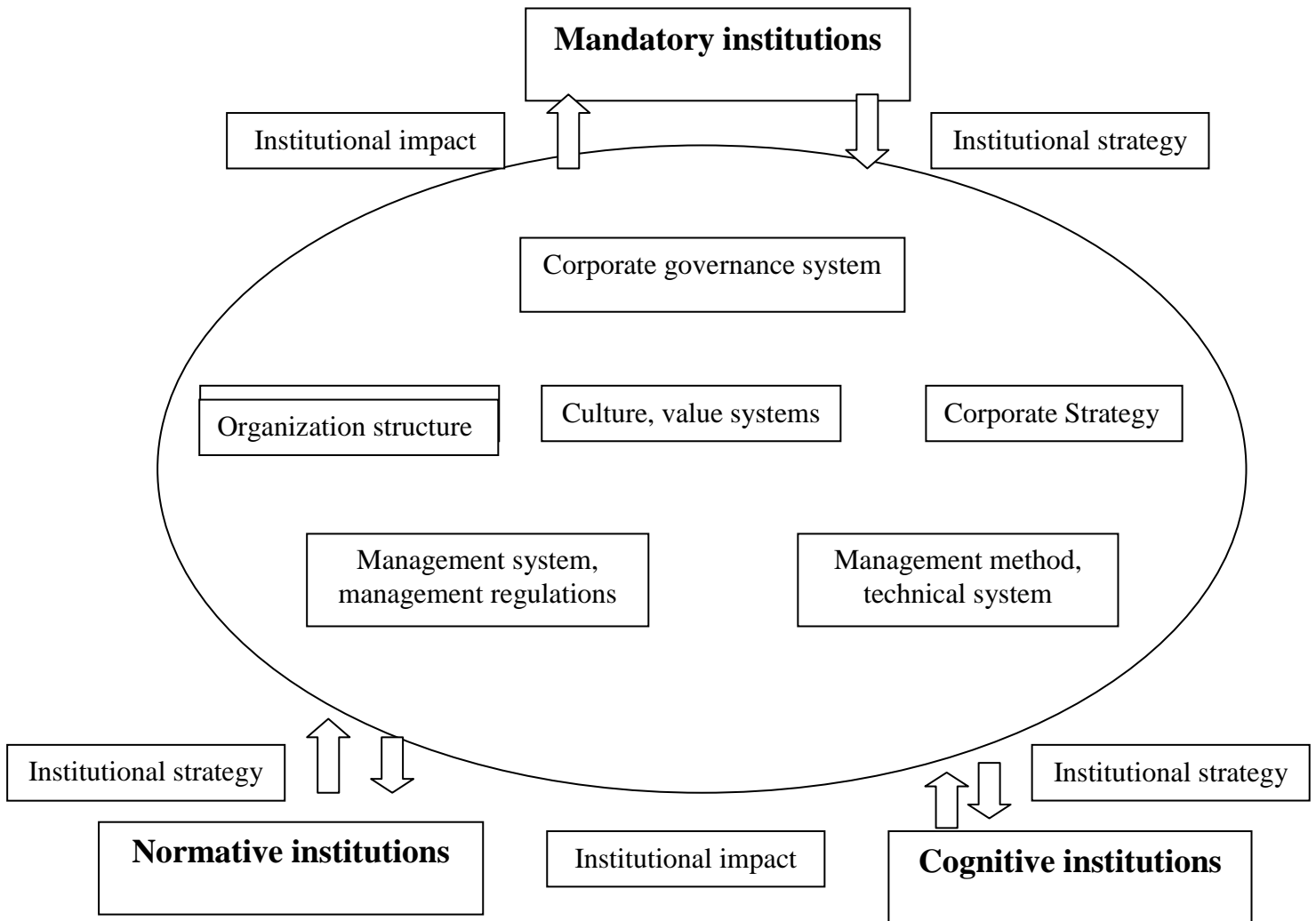
Institutional studies from the perspective of sociology divide the institutions into mandatory, normative and cognitive institutions. Mandatory institutions refer to some laws and regulations and government policies that promote or restrict specific behaviors (Busenitz,2000).Normative institutions refer to the values, beliefs, norms, judgments on human behavior held by individuals in a given country and social responsibility as the basis for the formation and limitation of interpersonal interaction(Scott, 2008).Cognitive institutions refer to the widely shared social knowledge and cognitive types that people use to explain particular phenomena (Kostova,2002).Among them, the regulatory institutions are similar to the formal institutions, normative and cognitive institutions corresponding to the informal institutions(Scott, 2008).

The institutional environment is a set of basic political, social, and legal foundational rules that

establish the basis for production, exchange, and distribution. It has relative stability. It refers to the scope for people to choose institutional arrangements so that people's pursuit of self-interest through the choice of institutional arrangements is subject to specific restrictions. Meyer & Rowan published the <New Institutionalism in Education> as a groundbreaking article (Meyer & Rowan, 1977). They proposed that we must first study and understand various organizational behaviors and explain various organizational phenomena from the perspective of the organizational environment.

Selznick (Selznick, 1949), a representative of the early institutional theory, conducted a study of the Tennessee Water Dam project and management organization and proposed that the organization is not a closed system. It is affected by the environment, and it is an institution. These views are the basic ideas of the early institutional theory and have become an essential academic background for the modern institutional theory. Modern institutional theory believes that traditional rules and standards in the external environment of the organization provide the organization with an institutional environment through the influence they exert. Scott (Scott, 2004) divided the influence of this institutional environment into categories. The mandatory institution comes from political pressure and legitimacy problems. They use legally mandated coercion or threats to guide organizational activities and organizational concepts. Normative institutions are linked to ethics and specialization, and most of these institutions' ability to guide organizational activities and beliefs comes from social responsibility and specialization. The institution of cultural cognition refers to the collection of shared important values, beliefs, and cognitive frameworks. It can provide organizational members with modeled thoughts, feelings, and reactions to guide their decision-making and other behaviors. It determines People's universal values, beliefs and behavioral orientation. Among them, the mandatory institutions are similar to the formal institutions, normative and cognitive institutions corresponding to the informal institutions(Scott, 2008).

Table 2 Firms and Institutional Environment



Source: from Selznick (1949) and Scott's (2004) research results.

The institutional theory holds that organizations face two different environments, technological environment and institutional environment. Both environments have important significance for the survival and development of the organization. From the viewpoint of institutional theory, the way in which institutions and the environment interact with each other is the problem to be studied in the institutional environment.

The three modes of institutional environments and firm internationalization

There are three modes of interaction between international firms and institutional environment. The first stage: institutional evasion, that is, multinational corporations regard the external institutional environment as a given part, but they can make choices in different institutional environments (Kane, 1984). The second stage: institutional adaptation, that is, multinational corporations try to adjust their structure, behaviour and tactics to better adapt to the institutional environment (Meyer, 1977; Kostova, 2008; Tan, 2013). The third stage is the

synergic evolution of the institution. That is to say, the objectives of transnational corporations not only adapt to the local institutional environment but also affect the local institutional environment (Cantwell, 2010). For example, Gaffney et al. (Gaffney, 2014) pointed out that with the passage of time, the rapid internationalization of international firms will further promote the transformation of the home country institution. International firms have shown only limited homogeneity because they allow societies to accept and recognize themselves for legitimacy through company-level innovation, institutional entrepreneurship, manipulation and negotiation (Kostova, 2008; Cantwell, 2010). For example, Tan et al.'s study shows that firms at the centre of the network can innovate and shape the institutional environment through the creation and use of networks to avoid trade-offs between institutional and competitive differentials and at the same time gain competitive advantage and legitimacy (Tan,2013).

Research goal

Most of the existing literature examines the influence of the institutional environment on the internationalization of a firm's strategic process and performance. The positive and active role a firm plays in the process of institution establishment, maintenance and change have not been given due attention (Cantwell, 2010). The research on the mechanism of the co-evolution between the firm and the institutional environment mainly stays at the level of theoretical analysis and lacks relevant empirical tests. Institutionalization and firm internationalization are a process of synergistic evolution in which firms need to respond to institutional pressures and at the same time firms can change and shape the external institutional environment conducive to their existence and development. As firms with limited market power and resources, can they become active agents of institutional change in their home countries and host countries? How to evaluate the firm's contribution to the institutional transformation of home and host countries (Cantwell, 2010)? Therefore, this research attempts to fill the gap that to probe deeply into the mechanism of the synergistic evolution between the internationalization practice of Chinese and Russian firms and the theory and environment of the internationalization as follows:

- (1). To analyze the impact of informal institutions on the internationalization of Chinese and Russian firms.
- (2). To discuss what measures Chinese and Russian firms may taken to eliminate the negative impact of the informal institutions in host countries.
- (3). To explore the relationship and mechanisms between the informal institutions and the internationalization process of Chinese and Russian firms.
- (4). To elaborate how the internationalization practice of Chinese and Russian firms can enrich and develop the institutions internationalization theory.

The impact of institutions on the internationalization of firms

5.1 Impact on the strategic internationalization decision of firms

From the perspective of institutional theory, why should firms implement the international strategy? To explain the impact of the home-country environment on the internationalization of enterprises, academics have proposed a government promotion perspective in which firms try to evade domestic restraints by investing abroad to evade their views and favorable government policies to encourage local firms to expand abroad (Witt,2007; Luo,2010). For example, Yamakawa et al (Yamakawa, 2008) argue that the regulatory environment of emerging economies that support large, existing firms and discriminate against new ones will drive local firms to become more internationalized in developed economies while Buckley et al.'s empirical study shows that direct foreign liberalization of investment policies has increased China's level of OFDI (Buckley,2007). In the institutional environment of host countries, host countries with a sound institutional environment and stability appear to be more attractive to the internationalization of firms in emerging market countries. However, some studies have reached the opposite conclusion. For example, studies by Buckley et al., Cuervo-Cazurra and Genc (Buckley, 2007; Cuervo-Cazurra, 2008) show that while the sound economic institution in the host country has a positive impact on OFDI by Chinese firms, the multinationals in developing countries, instead, host countries with poorly regulated legal institutions have higher penetration rates because they are already accustomed to operating in difficult circumstances. Also, legitimacy is also an important driver of the internationalization of startups. For example, Bangura's case study of Indian firms (Bangara, 2016) found that startups make accelerated international decisions because of the need to establish legitimacy in their home and host countries (Yamakawa, 2008).

5.2 Impact on foreign location choice of firms

On the one hand, the state institutions have an important influence on the choice of foreign countries. According to the path dependence theory, the home country legal institutions also have an important influence on the choice of foreign locations. For example, firms based on new technologies from common law (civil law) law countries prefer to enter the target countries of the common law (civil law) law system (Coeurderoy, 2008). In host country institutions, the absence of regulatory and regulatory institutions has a negative impact on foreign location choices. As Guler and Guillén (Guler, 2010) argue, venture capital firms tend to enter host countries with innovative, legal and financial institutions. However, the study of the impact of the uncertainty of the host country institutions on the decision-making of foreign countries has produced a mixed result. Some studies suggest that international firms are more likely to choose

to enter target countries with high policy stability (Coeurderoy, 2008; Guler, 2010; Holburn, 2010).

On the other hand, the international institution has also had a significant impact on the choice of foreign locations. About the regional institution, the higher the degree of regulatory controls in a country's area, the fewer transaction costs, and the higher the likelihood of TNCs entering the country (Arregle, 2013). About institutional distance, Buckley et al. suggested that Chinese firms tend to invest in countries that are closer to Chinese culture because smaller institutional distances reduce the disadvantage of outsiders (Buckley, 2007).

5.3 Impact on entry mode choice of firms

The institutional environment of the host country has had a significant impact on the choice of mode of entry. The study of the direct impact of host country system on entry mode selection (Brouthers, 2002; Cui, 2012; Rodriguez, 2005; Rodriguez, 2005), on the one hand, excavated a large number of specific host country regulatory, normative and cognitive institution factors. For example, the host country's legal restrictions on entry patterns, the randomness and universality of corruption, the perfection of the market institution, the perception of the rule of law, investment risks, political instability, regulatory pressure on local legitimacy and the local number of private equity firms and investment banking development. On the other hand, we discuss several issues of entry mode selection from the perspective of process and dichotomy. For example, consider the equity or non-equity model; if you choose the equity model, then consider the joint-venture or wholly-owned model; if you choose the joint-venture model, then consider the foreign affiliates of the shares; if you choose the wholly-owned model, the final consideration of international mergers and acquisitions or Greenland mode. In addition to a large number of direct effects analysis, the integration study is also vibrant. In the internal integration of institutional theory, some papers examine the role of the interaction between the randomness and universality of corruption in the host country, the political instability and the pressure of legitimacy on the choice of entry mode (Rodriguez, 2005; Meyer, 2009). In integrating institutional theory with other theories, some scholars use the institutional environment of the host country to analyze the boundary conditions that affect the choice of entry mode, such as technological intensity, resource intangibility, relational networks, and asset-specificity (Meyer, 2009; Dikova, 2010; Maekelburger, 2012). Other scholars examined the moderating effects of prior experience and state ownership on the choice of host country institution and mode entry and the mediating effect of cooperation (Cui, 2012; Rodriguez, 2005; Xia, 2009; Roy, 2009).

5.4 Impact on the internationalization level of firms

The national institution has a significant influence on the degree of internationalization. In the home country institution, the level of development of home-country free market mechanism is positively correlated with the export density of enterprises, while the absence of home country

institution leads directly to the insufficient internationalization of enterprises in the home country (Kolk, 2014). Apart from the direct effect, the degree of support and marketization of motherland not only plays a mediating role between technological resources and the degree of internationalization of firms but also indirectly affects the acceleration of internationalization through the development of strategic guidance and individual globalization (Gaffney,2014). In host country regimes, the regulatory risk in the host country is inversely related to the speed at which new technology-based start-ups enter the country (Coeurderoy, 2008). Similarly, host-specific regulatory controls and capital investment are positively correlated with the depth of internationalization of transnational corporations in the country (Arregle, 2013). It is noteworthy that the institutional environment of the host country has a significant impact on the degree of internationalization of firms in a given host country rather than on the degree of internationalization of a firm as a whole.

5.5 Impact on the internationalization process of firms

Firm internationalization is a dynamic process, and the process can be divided into the following three stages: before entering, after initial entering, and after entering. Puck et al., Santangelo and Meyer both examined the impact of the host country institutional environment on the subsequent internationalization strategy (Puck, 2009; Santangelo, 2011), but they reached inconsistent conclusions. The former believe that the perceived external uncertainty and the complexity of host country foreign investment policies are negatively associated with the possibility of a change in the international joint ventures to a wholly owned subsidiary. The latter believe that the greater the uncertainty of the host country's market institutions, the more likely it will be for transnational firms to implement their commitments to increase their strategies. The greater the absence of host country market institutions, the less likely transnational firms will implement their promised reduction strategies. In the international institution, the formal institutional distance has a significant positive impact on the likelihood of Greenfield investment rather than M & A or joint ventures on subsequent entry (Estrin, 2009). The cultural distance, on the other hand, will have a significant negative impact on the likelihood of a change in the international joint venture to a wholly owned subsidiary (Puck, 2009).

5.6 Impact on the internationalization efficiency of firms

The local institution has had a significant impact on the efficiency of internationalization. Most of the literature is the systematic factors that affect the internationalization efficiency of firms at the national level or the international level, often neglecting the institutional factors at the local level. Han et al(Chan,2010) examined the impact of the host country's local institution on the efficiency of foreign affiliates(Chan,2010). Their findings show that there are differences in the efficiency of foreign affiliates in different parts of the host country and that this difference is more significant in emerging economies than in advanced economies. In addition to the

absence of institutions, local institutional diversity may also have a negative impact on the efficiency of foreign affiliates by limiting access to economies of scale.

The international institution has strong explanatory power for internationalization efficiency. Some studies suggest that although the international institution has a direct impact on the efficiency of internationalization, such effects are not ubiquitous but have marginal conditions. The formal and informal institutional distance hinders the completion of cross-border acquisitions, and previous experience of cross-border acquisitions can mitigate this impediment (Dikova, 2010). Other studies argue that the international institution can not directly affect the efficiency of internationalization. It requires mediation or mediation as a proxy for the indirect impact on internationalization efficiency. The cultural distance not only indirectly affects the efficiency of international acquisition through the development of integrated capabilities but also complements the ability of integration to improve the efficiency of international M & As (Reus, 2009). Formal institutional distance and formal contracts play a complementary role in improving efficiency, while informal institutional distance and relationship arrangements play a surrogate role in increasing efficiency (Abdi, 2012).

Informal institutions and Chinese and Russian firms' internationalization

Informal institutions refer to unwritten restrictions on human behavior, not formal institutions such as laws, including values, ethics and customs. They are socially shared rules, usually unwritten, that are created, communicated and enforced outside of official channels. Muralidharan et al.'s study demonstrates that high performance orientation, high self-expression, and low social desirability of entrepreneurship in societies increase the extent of internationalization by early-stage entrepreneurial firms (Muralidharan, 2017). Some scholars believe that the informal institutions play a role in supporting and supplementing the formal institutions (Carl J& North, 1979, 1992).

Internationalization of firms operation is an inevitable requirement of economic globalization, regional integration and national economic development. In order to take full use of Russian and Chinese advantages of their factor endowments and comparative cost advantages, both Russia and China have joined in the WTO to participate in global trade. Russia formulates and implements resource export-led strategy. The Chinese government has proposed the "Belt and Road" strategy. Both aim to promote economic development and the internationalization process of their firms. The core of this research is to discuss the role of informal institutions in the process of internationalization of Chinese and Russian firms.

6.1 Motivations and strategies of internationalization of Chinese and Russian firms

The Chinese and Russian firms mentioned in this article include Chinese firms Russian firms and Sino-Russian joint ventures. The internationalization of Chinese and Russian firms refers to all economic trades, investments and business activities carried out by Chinese and Russian firms outside their native countries.

6.1.1 Internationalization process of Chinese and Russian firms

In the process of internationalization, Chinese firms have comparative advantages in the field of manufacturing. For example, the determinants of Chinese wind firms' internationalization are the competitive advantages of leading Chinese wind firms and the intensified domestic market competition (Sufang et al, 2015). Russia's energy industry export has an obvious advantage. This not only serves as a weapon for Moscow's economic development but also becomes an important part of the country's political considerations (Adnan, 2017).

6.1.2 Motivations of internationalization of Chinese and Russian firms

Mainly in order to expand the international market and increase market share (Sufang Zhang et al, 2015). Kaveh et al believed that emerging market firms, including Chinese and Russian firms, their Emerging market multinationals (EMMs) are pursuing higher profits, market share and brand share in the process of internationalization, and develop more raw material markets, product markets and capital markets (Kaveh et al, 2014).

6.1.3 Strategies of internationalization of Chinese and Russian firms

China and Russia, as emerging market countries both joined the WTO, undoubtedly promoted the adjustment of the national economic structure and the internationalization of firms (Yulia et al, 2015). Accession to the WTO changed the composition of the factors influencing the development of Russian industry. In the new environment industry in Russia on world markets should move from competition through lower prices to compete by introducing new technologies and improving product quality (Monica, 2015).

Russia's resource export-led strategy, the main goal was to achieve economic stability and growth, take the path of resource export-oriented strategy. Russia's draft energy strategy to 2035 projects oil exports from Russia to rise 7%-8% by 2020 and 24% by 2035, with a near doubling of exports to countries in the Asia-Pacific region (MOSCOW. Interfax, Sept 8 2015). The The Chinese government has proposed the "Belt and Road" strategy "(Lin,2015). " Belt and Road" is one of China's new opening-up strategies developed in response to the changed domestic and international circumstances.

6.2 Informal institutions in the internationalization process of Chinese and Russian firms

6.2.1 Informal institutions in the internationalization process of Chinese and Russian firms

Informal Institutions, also known as informal constraints and informal rules, refer to the code of conduct that people gradually form in the process of long-term social interaction and are

accredited by the society. They are common customs and values, including value belief, ethics, cultural tradition, customs and habits, ideology and so on. For example, the usefulness of taboos as a distinct type of informal institutions for effective and efficient natural resource management is threatened by their erosion as local communities transform (Postelnicu et al , 2015). We can see that taboos as a distinct type of informal institutions, like value belief, play a role in market economy transactions.

Informal institutions also have effects on economic activities. Jacob examined results indicate that religion plays an important role in economic development, but mostly in a non-linear manner. Countries with moderate religious values and behavior tend to have higher income levels than countries on both ends of the religious spectrum (Jacob et al, 2007).

6.2.2 The role of informal institutions in the internationalization process of Chinese and Russian firms, mainly play a supporting role.

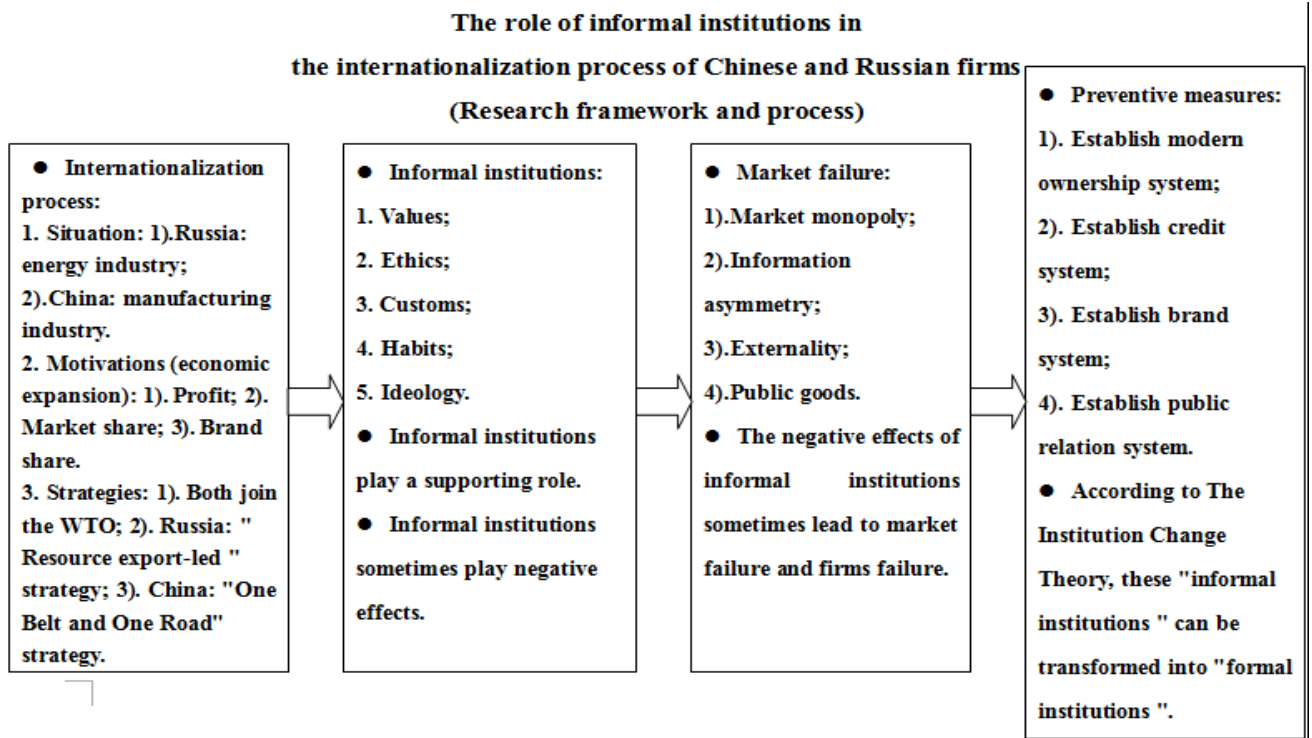
The informal institutions play a supporting role. Liesbet's research results suggested that informal institutions remain essential as mechanisms of risk management even as the economy matures and new formal institutions gradually develop (Liesbet; Kunal, 2010). Guanxi as an informal institution that plays a supporting role in the internationalization of Chinese firms. Managers of Chinese firms can use Guanxi when entering and expanding in developed markets (Chen, 2017). Fuentelsaz et al.'s study shows that the informal institutions influence the formation of forest lease terms in Russia (Fuentelsaz et al,2018). Anna finds that the impact of the weakness of formal and importance of informal institutions on the policy outcome was found to be significant (Anna, 2018).

6.2.3 The effects of informal institutions in the internationalization process of Chinese and Russian firms , mainly negative effects.

There are mainly four basic reasons for the failure of local competitive markets and the failure of Chinese and Russian firms: market power, incomplete information (Charles, 2008), externalities (J.J.Laffont, 2008) and public goods (Joseph, 1989; as shown in Table 3). Corrupt practices and customs, as an informal institution; have increased the cost of economic activities of firms and even led to the failure of markets and firms (Infante,Smirnova, 2010). Due to the lack of local business ethics or misunderstanding, the Chinese and Russian firms in the local business activities are likely to fail (Youg, Carson, 2015).

6.2.4 The negative effects sometimes lead to market failure and failure of Chinese and Russian firms in the internationalization process.

Table 3 Theoretical framework



Source: from a comprehensive analysis of the thesis

Most cases that lead to market failure and business failure are often attributed to business ethics issues. Joseph Heath lumps in quotas and protectionist measures with cartelization, taking advantage of information asymmetries, seeking a monopoly position, and so on, as all instances of behavior that can lead to market failures in his market failures approach to business ethics (Jaworski, Peter, 2014). Local firms are taking advantage of information asymmetries, seeking a monopoly position, as all instances of behavior that can lead to market failures in his market failures approach to business ethics problems (Jaworski, 2014).

Due to the differences in culture and communication habits, it is difficult for Chinese and Russian firms to obtain the critical information of the possibility of development, which inevitably leads to the failure of the firm's operation. One of the crucial assumptions regarding the efficiency of the private market is that all involved actors have full information about market opportunities, costs, and benefits. However, this assumption is likely to be only partially fulfilled in many local economic development efforts. In fact, those who stand to benefit most from such efforts may be least able to secure critical information regarding development possibilities (Weiler, Stephan, 2000).

6.3 Preventive measures to deal with problems caused by informal institutions in the internationalization process of Chinese and Russian firms (also are informal institutional measures)

6.3.1 Establish ownership system to strengthen incentive management.

Property protection is an important guarantee for the company's operation. Some researchers extended this literature by examining the effect of property rights security on corporate risk management decisions-an important element of a firm's business strategy. Using a unique dataset covering over 55,000 Chinese firms and employing both institution- and firm-level measures of property rights security, they find that secure property rights lead to higher corporate demand for property insurance, suggesting that property rights security is an important determinant of corporate risk management decisions (Chen; Ping; Hong, 2012). The establishment of a clear ownership, clear rights and responsibilities, strict protection and smooth circulation is the basic requirement of Chinese and Russian enterprises to overcome the negative influence of the local informal system.

6.3.2 Establish credit system to ensure information symmetry.

Studies have shown that firms can enhance their competitiveness by establishing information systems (including credit records). Chinese firms can enhance their competitive advantage through implementing enterprise information systems (EIS) (Xiao fen, Lu; Jing, Degang, 2008). Indeed, Chinese and Russian firms can make use of the establishment of an enterprise information system to solve the problem of information asymmetry and enhance international competitiveness. For the Russian firms, the most important factor in their internationalization was their engagement in honest business practices that established trust and commitment in their relationships with international business partners (Shirokova, McDougall, 2012). The Russian firms more look at the transaction honest and trustworthy, which highlight the importance of building a enterprise credit system.

6.3.3 Establish brand system to improve firm image and market share.

Brand building for the international business and expand market share is significant. Brands play a critical role in establishing a firm's visibility and position in international markets. Building coherent international brand architecture is a critical component of the firm's overall international marketing strategy (Douglas, Craig, Nijssen, 2001). Brand building is a meaningful way to cultivate customer loyalty. The findings suggest that industrial brand managers focus on

building brand equity through establishing key resource advantages in the different brand usage situations encountered by buying center members (Yong et al, 2017).

6.3.4 Establish public relations system to strengthen understanding and communication with the local market and the people.

Establishing public relations system is an important management task for the internationalization of Chinese and Russian firms. Public relations is not just a creative act, it is an act of management as well, accord- to James Tirone (James, 1977). Establish public relations system can promote communication between Chinese and Russian firms and local firms and people, and enhance the international operation ability of firms. Culture and mass communication play a significant role in shaping the dialogue between firms and public in different countries in general and between the Russia and China in particular (Jan, 2017).

Dissertation methodology

Based on the above research, the main topic of research is the role of Informal Institutions in the Internationalization of Chinese and Russian firms. The study will have the following research objectives:

1. What are informal institutions in China and Russia? How do they affect the internationalization process of Chinese and Russian firms?
2. How many possible preventive measures can be used to deal with the negative impact of informal institutions? How do they work?
3. What is the interaction mechanism between informal Institutions and internationalization process of Chinese and Russian firms?
4. How does the process of internationalization of Chinese and Russian firms develop and enrich the theory of internationalization of informal institutions?

We will use a mixed methodology (qualitative methods mixed with quantitative methods). We will use survey-based perceptual measurements to study the quantitative analysis section. Data on research questions will be collected using a semi-closed and open questionnaire. The questionnaires are distributed to corporate personnel (including researcher and practitioner of internationalization of Chinese and Russian firms) in both the home country and the host country where the Chinese and Russian firms are located. A total of 400-500 copies will be distributed. The effective questionnaire recovery rate reaches 70-80% of the population.

Quantitative data will be phased analysis, focusing on the study of the questionnaire to understand the informal institutions of business practices in China and Russia. Data analysis will focus on measures surrounding the establishment of firm informal institutions, and data

processing and analysis will use appropriate statistical software packages such as SPSS, STATA or other convenient statistical packages. This will enhance comparisons, correlations, regression and factor analysis in data processing.

Expected results

In all analyses, this research may have the following results:

We hope that research will reveal what are the specific informal institutions that will affect the internationalizations of Chinese and Russian firms. In the host countries, like Russia and China, there are many informal institutions, including all kinds of values, ethics and customs. They play an important role, but sometimes have positive effects, sometimes have adverse effects.

We expect that the Chinese and Russian firms could take some possible preventive measures to deal with adverse effects (are also informal institutional measures):

- (1).Establish ownership system of firms to strengthen incentive management;
- (2).Establish social credit system to ensure firms information symmetry;
- (3).Establish a brand system of firms to improve firm image and market share;
- (4).Establish public relation system of firms to strengthen communication.

We try to make clear that what is a mutual promotion relationship between Chinese and Russian firms' internationalization practice and informal institutions internationalization theory, and how will Chinese and Russian firms' internationalization practice develop and enrich the theory of internationalization of informal institutions.

Contribution to theory

The research is a timely respond to the lack of research on the role of informal institutions in the internationalization process of Chinese and Russian firms. Some former research just explores the impact of informal institutions on technological change in transition, comparing the 89 regions of the Russian Federation. They use panel data during the period of recovery and growth (1998-2004) and find an unambiguous relationship between early strong reform and technological change. In their model, the quality of informal institutions is proxied by investment risk (Granville, Leonard, 2010).

We have paid more attention to both Russia and china context. Fiedorczuk's article main thrust is to analyze selected informal institutions which were considered the most significant from the Russian corporate governance system point of view. These are, among others: the tendency not to obey the rights of minority shareholders, informal relationships of enterprises with authorities of various levels, and corruption. The author assumes that informal institutions

decide upon the specificity of the corporate governance system in Russia and its particular elements, and upon the efficient functioning of supervisory mechanisms (Fiedorczuk, 2016).

Our research argues that the role of informal institutions as well as formal ones is central to understanding the functioning of corporate governance. Estrin et al analysis is based on the Helmke and Levitsky framework of informal institutions and focuses on two related aspects of corporate governance: firm ownership structures and property rights; and the relationship between firms and external investors. They argue that for China, 'substitutive' informal institutions, whereby informal institutions substitute for and replace ineffective formal institutions, are critical in creating corporate governance leading to enhanced domestic and foreign investment. In contrast, Russia is characterized by 'competing' informal institutions whereby various informal mechanisms of corporate governance associated with corruption and clientelism undermine the functioning of reasonably well set-out formal institutions relating to shareholder rights and relations with investors (Estrin, Prevezer, 2011). Wang suggests a solution for the problem on foreign direct investment (FDI) of informal institutions in China. Examination of FDI determinants; Significance of market size in determining the FDI; Role of informal networks in economic production(Wang,2000).

Our research expands the scope of research on informal institutions in emerging market countries. Aleskerov considers the opportunism of economic entities as a form of behavior in the current situation on market economy in Russia. They show the link between the moral and ethical norms of society and norms of behavior in business under the market conditions. She describes the impact of the economic crisis on the behavior of economic entities and the formation of opportunistic behavior as an informal institution (Aleskerov, 2017). Informal institutions such as culture is contingent condition affecting opportunism in large shareholders' relationships (Sauerwald, Peng, 2013). Lv, et al,Used the data from 2003 to 2012 of Chinese family firms, our research finds that the collusions of multiple large shareholders (MLS) caused by Chinese family-oriented collectivism culture lead to firms investment inefficiency, including overinvestment and underinvestment (Lv et al,2015).

Conclusions

With the development of economic globalization and regional integration, Chinese and Russian firms have started the process of internationalization. The internationalization of firms is closely linked with the comparative advantage theory. The theory believes that the work gains from trade for individuals, firms, or nations that arise from differences in their factor endowments or technological progress (Maneschi, 1998; Dixit, 1980). From the perspective of

comparative advantage theory, have Russian and Chinese firms taken comparative institutional advantage in the process of internationalization?

We conclude that Chinese and Russian firms develop preventive informal institutional measures to deal with the negative impact of informal institutions. Those measures may become Chinese and Russian firm's advantages of the informal institutions. Establish ownership system to strengthen incentive management (covering over 55000 Chinese firms and uses data from 93 countries over the period 1995-2008, Chen, 2012). Establish brand system to improve firm image and market share (Douglas, 2001; Yong, 2017). Establish credit system to ensure information symmetry (North, 1992; Shirokova, 2012; Xiaofeng, 2008). Establish public relations system to strengthen communication with the local market and the people (James, 1977; Jan, 2017).

We believe that according to the Institution Change Theory, informal institutions can translate into formal institutions and play a role (North, 1992; Acemoglu, 2005; Holmes, 2013). Those mean that if Chinese and Russian firm's informal institutions play an important role in correcting market failure, the informal institutions can be changed into a part of Chinese and Russian informal institutions that serve the economic and social development. There is a mutual promotion relationship between Chinese and Russian firm's internationalization practice and Chinese and Russian institutions internationalization theory, and Chinese and Russian firms' internationalization institutional practice also develops and enriches the institutional environment content and theory.

References

- Aoki, Masahiko. 2001. *Toward a Comparative Institutional Analysis*. Cambridge: MIT Press.
- Acemoglu, Daron, Simon Johnson, James A. Robinson. 2005. Institutions as a fundamental cause of long-run growth. *Handbook of Economic Growth* 1, 385-472.
- Abdi M, Aulakh P S. 2012. Do country-level institutional frameworks, and interfirm governance arrangements substitute or complement in international business relationships & quest. *Journal of International Business Studies*, 43(5), 477-497.
- Anna Korppoo. 2018. Russian associated petroleum gas flaring limits: Interplay of formal and informal institutions. *Energy Policy*, 116, 232-241.
- Bangara A, Freeman S, Schroder W. 2012. Legitimacy and accelerated internationalization: An Indian perspective. *Journal of World Business*, 47(4), 623-634.
- Rodriguez P, Uhlenbruck K, Eden L. 2005. Government corruption and the entry strategies of multinationals. *Academy of Management Review*, 30(2), 383-396.
- Chan CM, Makino S. 2007. Legitimacy and multi-level institutional environments: Implications for foreign subsidiary ownership structure. *Journal of International Business Studies*, 38(4), 621-638.
- Coeurderoy R, Murray G. 2008. Regulatory environments and the location decision: Evidence from the early foreign market entries of new-technology-based firms. *Journal of International Business Studies*, 39(4), 670-687.
- Chan CM, Makino S, Isobe T. 2010. Does subnational region matter? Foreign affiliate performance in The

United States and China. *Strategic Management Journal*, 31(11), 1226-1243.

Cantwell J, Dunning J H, Lundan S M.2010. An evolutionary approach to understanding international business activity: The co-evolution of MNEs and the institutional environment. *Journal of International Business Studies*, 41(4), 567-586.

Chen Lin;Ping Lin; Hong Zou,2012. Does property rights protection affect corporate risk management strategy? Intra- and cross-country evidence. *Journal of Corporate Finance*,18(2), 311-330.

Chen, Jonathan,2017. Internationalization of Chinese Firms: What Role Does Guanxi Play for Overcoming Their Liability of Outsidership in Developed Markets? *Thunderbird International Business Review*. 59(3),367-383.

Dahlman,Carl J.1979.The Problem of Externality. *Journal of Law and Economics*, 22 (1), 141-162.

Dixit, Avinash; Norman, Victor, 1980. *Theory of International Trade: A Dual, General Equilibrium Approach*. Cambridge: Cambridge University Press, 2.

Douglass C.North, 1990. *Institutions, Institutional Change and Economic Performance*, Cambridge University Press.

Douglas Susan P,Craig, C. Samuel Nijssen, Edwin J.2001. Executive Insights: Integrating Branding Strategy Across Markets: Building International Brand Architecture. *Journal of International Marketing*, 9(2), 97-114.

EDWARD J. KANE.1984. Technological and Regulatory Forces in the Developing Fusion of Financial- Services Competition. *The Journal of Finance*,39 (3), 759-772.

Eliasson, Gunnar & Magnus Henrekson, (2004). William J. Baumol: An Entrepreneurial Economist on the Economics of Entrepreneurship. *Small Business Economics*. 23 (1),1-7.

Estrin S, Baghdasaryan D, Meyer K E.2009.The impact of institutional and human resource distance on international entry strategies. *Journal of Management Studies*, 46(7), 1171-1196.

Estrin, S. Prevezer, M.2011. The role of informal institutions in corporate governance: Brazil,Russia, India, and China compared. *Asia Pacific Journal of Management*,28(1),41-67.

Etayankara Muralidharan,Saurav Pathak.2017. Informal institutions and international entrepreneurship. *International Business Review*, 26(2),288-302.

Fiedorczyk, Monika.2016. Informal Institutions in the Corporate Governance System in Russia. *Annales. Etyka w Zyciu Gospodarczym*,19(4).101-111.

Granville, Brigitte; Leonard, Carol S.2010. Do Informal Institutions Matter for Technological Change in Russia? The Impact of Communist Norms and Conventions, 1998-2004. *World Development*, 38(2), 155-169.

Hongying Wang.2000. Informal institutions and foreign investment in China. *Pacific Review*,13(4),525.

Hodgson, Geoffrey M. 2004. *The Evolution of Institutional Economics: Agency, Structure, and Darwinism in American Institutionalism*. New York: Routledge.

Heinz-Dieter Meyer, Heinz-Dieter Meyer Brian Rowan.2006. *New Institutionalism in Education*.State university of New York Express, Albany.

Holmes Jr., R. Michael; Miller, Toyah; Hitt, Michael A.; Salmador, M. Paz.2013. The Interrelationships Among Informal Institutions, Formal Institutions, and Inward Foreign Direct Investment. *Journal of Management*, 39(2), 531-566.

Infante, Davide; Smirnova, Janna,2010.Market Failures within Poor Institutions: The Effects of Bureaucrats' Rent-Seeking Activity.*Institutional and Social Dynamics of Growth and Distribution*, 93-115

James F. Tirone. 1977. Measuring the bell system's public relations. *Public Relations Review*, 3(4), 21-38.

Joseph E.Stiglitz, 1989.Markets, Market Failures, and Development,"*American Economic Review*, 79(2), 197-203.

Jacob Jeffry, Osang Thomas.2007.Values, Beliefs and Development. Southern Methodist University, Department of Economics, Departmental Working Papers: 705.

J.J. Laffont,2008. Externalities, *The New Palgrave Dictionary of Economics*, 2nd Ed. Abstract.

- Jaworski, Peter, 2014. An Absurd Tax on our Fellow Citizens: The Ethics of Rent Seeking in the Market Failures (or Self-Regulation) Approach. *Journal of Business Ethics*, 121(3), 467-476.
- Jan Servaes, 2017. Soft power and public diplomacy: The new frontier for public relations and international communication between the US and China. *Public Relations Review*, 38(5), 643-651.
- Kostova T. 2008. The success of the Transnational Transfer of Organizational Practices within Multinational Companies. *Twin Cities: University of Minnesota*, 178-185.
- Khavul S, Pérez-Nordtvedt L, Wood E. 2010. Organizational entrainment and international new ventures from emerging markets. *Journal of Business Venturing*, 25(1), 104-119.
- Kolk A, Lindeque J, Buuse D. 2014. Regionalization strategies of European Union electric utilities. *British Journal of Management*, 25(S1), 77-99.
- Kaveh Moghaddam, Deepak Sethi, Thomas Weber, Jun Wu, 2014. *Journal of International Management*, 20(3), 359-374.
- Lynne G. Zucker. 1987. Institutional Theories of Organization, *Annual Review of Sociology* 13, 443-464.
- Luo Y, Xue Q, Han B. 2010. How emerging market governments promote outward FDI: Experience from China. *Journal of World Business*, 45(1), 68-79.
- Lucio Fuentesaz, Consuelo González, Juan P. Maicas. 2018. Formal institutions and opportunity entrepreneurship. The contingent role of informal institutions. *BRQ Business Research Quarterly*, 8(1), 56-67.
- Liesbet Steer; Kunal Sen. 2010. Formal and Informal Institutions in a Transition Economy: The Case of Vietnam. *World Development*, 38(11), 1603-1615.
- Lin, Justin Yifu, 2015. 'One Belt and One Road' and Free Trade Zones--China's New Opening-Up Initiatives. *Frontiers of Economics in China*, 5(10), 585-90.
- Lv, Huaili; Li, Wanli. 2015. Collusions in Chinese Family Firms: An Informal Institution-Based View of Multiple Large Shareholders. *Journal of Applied Business Research*, 31(4), 1531-1548.
- Meyer J W, Rowan B. 1977. Institutionalized organizations: Formal structure as myth and ceremony. *American Journal of Sociology*, 83(2), 340-363.
- Maneschi, Andrea. 1998. *Comparative Advantage in International Trade: A Historical Perspective*. Cheltenham: Elgar, 1.
- Meyer K E, Estrin S, Bhaumik S K, et al. 2009. Institutions, resources, and entry strategies in emerging economies. *Strategic Management Journal*, 30(1), 61-80.
- Monica Gambrell, 2015. Subvenciones en la negociacion del ingreso de China a la OMC: Implicaciones para el desarrollo. *Problemas del Desarrollo*, 46(181), 157-84.
- MOSCOW. Interfax, (Sept, 8, 2015). Russian energy strategy projects oil exports to rise 7%-8% by 2020, 24% by 2035. *Russia & CIS Energy Newswire*. 9/8/2015, p1-1. 1p.
- North, D. 1990. *Institutions, institutional change, and economic performance*. Cambridge University Press: Cambridge Mass, 220-363.
- North, Douglass C. 1992. *Transaction costs, institutions, and economic performance*. San Francisco. CA: ICS Press, 192-201.
- Puck J F, Holtbrügge D, Mohr A T. 2009. Beyond entry mode choice: Explaining the conversion of joint ventures into wholly owned subsidiaries in the People's Republic of China. *Journal of International Business Studies*, 40(3), 388-404.
- Postelnicu, Luminita, Hermes, Niels, 2015. *Microfinance Performance and Informal Institutions: A Cross-country Analysis*. ULB--Universite Libre de Bruxelles, Working Papers CEB: 15-032. 57.
- Rutherford, Malcolm. 2006. Wisconsin Institutionalism: John R. Commons and His Students. *Labor History*. 47 (2), 161-188.
- Reus T H, Lamont B T. 2009. The double-edged sword of cultural distance in international acquisitions. *Journal of International Business Studies*, 40(8), 1298-1316.
- Roy JP, Oliver C. 2009. International joint venture partner selection: The role of the host-country legal environment. *Journal of International Business Studies*, 40(5), 779-801.

- Selznick, Philip. 1949. *TVA and the Grass Roots: a Study in the Sociology of Formal Organization*. Berkeley: University of California Press.
- Scott, W. Richard. 2004. Institutional theory. In *Encyclopedia of Social Theory*, George Ritzer, ed. Thousand Oaks, CA: Sage, 408-414.
- Scott, W. Richard. 2008. *Institutions and Organizations: Ideas and Interests*. Los Angeles, CA: Sage Publications, 132-146, 150-166, 450-467.
- Santangelo GD, Meyer K E. 2011. Extending the internationalization process model: Increases and decreases of MNE commitment in emerging economies. *Journal of International Business Studies*, 42(7), 894-909.
- Shirokova G, McDougall-Covin. 2012. The role of social networks and institutions in the internationalization of Russian entrepreneurial firms: Do they matter? *Journal of International Entrepreneurship*, 10(3), 177-199.
- Sufang Zhang; Wei Wang; Lu Wang; Xiaoli Zhao, 2015. *Renewable and Sustainable Energy Reviews*, 43, March, 1333-1342.
- S.E., Aleskerov. 2017. Opportunistic entrepreneurial behaviour as an informal institution of the market economy in Russia. *Russian Journal of Entrepreneurship*, 18(2), 111-120.
- Thorstein B Veblen. 1899. *The Preconceptions of Economic Science*. *The Quarterly Journal of Economics*, 13(4), 396-426.
- Theodore W. Schultz. 1968. *Economic Growth and Agriculture*, New York: McGraw-Hill.
- Tan J, Shao Y, Li W. 2013. To be different, or to be the same? An exploratory study of isomorphism in the cluster. *Journal of Business Venturing*, 28(1), 83-97.
- Weiler, Stephan. 2000. Information and Market Failure in Local Economic Development: A New Role for Universities? *Economic Development Quarterly*, 14(2), 194-203.
- Wright M, Filatotchev I, Hoskisson RE, et al. 2005. Strategy research in emerging economies: Challenging the conventional wisdom. *Journal of Management Studies*. 42 (1), 1-33.
- Witt MA, Lewin A Y. 2007. Outward foreign direct investment as escape response to home country institutional constraints. *Journal of International Business Studies*, 38(4), 579-594.
- Xiaofeng Ma, Lu Liu, Jing Li, Degang Cui, 2008. *Tsinghua Science & Technology*, 13(3), 355-361.
- Xia J, Boal K, Delios A. 2009. When experience meets national institutional environmental change: Foreign entry attempts of US firms in the central and eastern European region. *Strategic Management Journal*, 30(12), 1286-1309.
- Yamakawa Y, Peng M W, Deeds D L. 2008. What drives new ventures to internationalize from emerging to developed economies?. *Entrepreneurship Theory and Practice*, 2008, 32(1):59-82.
- Young, Carson. 2015. Morality, competition, and the firm: the market failures approach to business ethics. *Erasmus Journal for Philosophy & Economics*, 8(1), 32-37.
- Yulia Vertakova, Vladimir Plotnikov, Mihail Culicov, 2015. Review of China's wind power firms internationalization: Status quo, determinants, prospects and policy implications. *Renewable and Sustainable Energy Reviews*, 43, 1333-1342.
- Young, Carson. 2015. Morality, competition, and the firm: the market failures approach to business ethics. *Erasmus Journal for Philosophy & Economics*, 8(1), 16-23.
- Yong J. Wang, Noel Capon, Valerie Lynette Wang, Chiquan Guo. 2017. Building industrial brand equity on resource advantage. *Industrial Marketing Management*, In Press, Corrected Proof, Available online March 1, 2018.
- Zettinig P, Benson-Rea M. 2008. What becomes of international new ventures? A coevolutionary approach. *European Management Journal*, 26(6), 354-365.