

## Article

# Administrative Distance Primacy in Huawei's Strategic Adaptation across Contrasting Markets

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**Abstract:** This study examines how institutional distance influences multinational enterprises' (MNEs) selection of foreign operation modes. We conduct a comparative analysis of Huawei's international expansion strategies in Russia and Japan. Drawing on institutional theory and the Uppsala internationalization model, we analyze Huawei's different foreign operation modes: international joint ventures (IJVs) in Russia and foreign direct investment (FDI) with licensing in Japan. Our findings reveal that cultural-administrative distance significantly influences operation mode choices, with higher institutional distance favoring collaborative modes while lower distance enables more committed modes. The study contributes to international business literature by providing empirical evidence on how Chinese MNEs navigate institutional distances during internationalization. It also offers practical insights for emerging market MNEs pursuing global expansion strategies.

**Keywords:** foreign operation modes; institutional distance; international joint ventures; foreign direct investment; emerging market MNEs; Uppsala model

## 1. Introduction

The rapid globalization of emerging market multinational enterprises (EM-MNEs) has become a prominent phenomenon in international business. Chinese telecommunications companies, particularly Huawei, exemplify this trend through their aggressive international expansion strategies. However, the selection of appropriate foreign operation modes remains a critical strategic decision that significantly impacts MNEs' international performance [1].

Foreign operation mode (FOM) selection has been extensively studied in international business literature, with scholars examining various determinants including transaction costs, organizational capabilities, and institutional factors. Recent research emphasizes the role of institutional distance in shaping MNEs' entry strategies, particularly for emerging market firms entering developed markets. Despite extensive theoretical development, empirical studies examining how Chinese MNEs navigate different institutional environments remain limited.

This study addresses two gaps: (1) limited empirical analysis of institutional distance's multidimensional effects on EM-MNEs, and (2) insufficient attention to how firms adapt strategies across heterogeneous contexts. We pose:

How do differential institutional distances influence Chinese MNEs' operation mode selection and performance outcomes?

Through Huawei's comparative strategies in Russia (high administrative distance) and Japan (low administrative distance), we demonstrate how institutional dimensions asymmetrically drive strategic adaptation. The study offers three contributions:

- 1) Theoretical: Identifies administrative distance as the primary driver of FOM selection, challenging cultural distance primacy [2].
- 2) Empirical: Reveals EM-MNEs' nonlinear internationalization paths.
- 3) Practical: Provides a decision matrix for institutional navigation.

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## 2. Literature Review and Theoretical Framework

### 2.1. Foreign Operation Mode Selection

FOM selection represents a fundamental strategic decision for internationalizing firms, involving trade-offs between control, resource commitment, and risk exposure [3]. The literature identifies various modes ranging from low-commitment options to high-commitment modes, including wholly-owned subsidiaries [4].

Transaction cost economics suggests that firms choose operation modes that minimize transaction costs while maximizing control over foreign operations. The resource-based view emphasizes how firm-specific advantages influence mode selection, with firms possessing superior capabilities preferring higher-control modes [5].

### 2.2. Institutional Distance and Internationalization

Institutional theory provides a complementary perspective, emphasizing how institutional environments shape organizational behavior and strategic choices [6]. Institutional distance, defined as the extent of dissimilarity between regulatory, normative, and cognitive institutions of different countries, significantly influences MNEs' international strategies [7].

The CAGE framework identifies four dimensions of distance: cultural, administrative, geographic, and economic. Cultural distance affects knowledge transfer and management practices, while administrative distance influences regulatory compliance and political risk exposure [8].

### 2.3. Uppsala Internationalization Model

The Uppsala model suggests that firms internationalize gradually, starting with psychically close markets before entering distant ones. This incremental approach allows firms to accumulate experiential knowledge and reduce liability of foreignness. The model has been revised to incorporate network relationships and institutional factors [9].

The Uppsala model argues that in the early stages of internationalization, firms confront high uncertainty and risk, so they are inclined to enter markets that closely resemble their home country [10]. Recent research shows that institutional distance also affects the speed of internationalization and the use of cross-border e-commerce platforms. In addition, studies have found that outward foreign direct investment from emerging-market economies is likewise influenced by institutional distance [11].

### 2.4. Chinese MNEs and Institutional Distance

Chinese MNEs face unique challenges in international expansion due to institutional differences between China's emerging market context and developed economies. These firms often employ "springboard" strategies, using international expansion to access strategic assets and overcome domestic institutional constraints [12]. The greater the institutional distance, the more likely Chinese multinational enterprises are to opt for cooperative entry modes. When the institutional distance is smaller, they show a stronger preference for wholly-owned subsidiaries [13].

Research Proposition: Emerging-market MNEs from China adapt their foreign operation mode selection based on institutional distance, with higher distance leading to preference for collaborative modes like IJVs while lower distance enables more committed modes such as wholly-owned subsidiaries.

## 3. Methodology

### 3.1. Research Design

This study adopts a comparative case study methodology to investigate Huawei's international expansion strategies in Russia and Japan. Case study research is well-suited for examining complex phenomena in real-world contexts, especially for questions that

focus on “how” and “why” strategic decisions are made [14]. By comparing Huawei’s approaches across two contrasting institutional environments, the study captures how different dimensions of institutional distance influence the selection of foreign operation modes and the associated performance outcomes. This design allows for an in-depth understanding of the interplay between institutional pressures and firm-specific strategies, while also providing empirical evidence to refine theoretical frameworks in international business [15].

### 3.2. Case Selection

Huawei was chosen as the focal firm due to its extensive international presence and the diversity of its foreign operation modes. Russia and Japan were selected as case countries because they represent contrasting institutional distances from China. Russia, characterized by high administrative distance and regulatory opacity, illustrates how firms adapt to complex institutional environments through collaborative strategies. In contrast, Japan represents a low administrative distance context with transparent governance structures and stable policy environments, highlighting conditions under which firms can pursue high-commitment strategies. This deliberate contrast enables a systematic analysis of how institutional contexts shape strategic choices, including the trade-offs between control, risk, and resource commitment [16].

### 3.3. Data Collection and Triangulation

To ensure methodological rigor and enhance the validity of findings, data were collected from multiple sources. Primary data included Huawei’s official documents such as annual reports covering 2010–2020, sustainability disclosures, and public speeches by the company’s top management. These sources provide direct insight into the firm’s strategic rationale and decision-making processes [17]. Secondary data comprised institutional metrics, academic literature, and contextual records. Institutional metrics were drawn from databases such as the OECD regulatory quality indicators and World Bank governance indices to quantify administrative distance. Academic literature included peer-reviewed studies on institutional theory and EM-MNE internationalization, which provided theoretical grounding and comparative insights [18]. Contextual records encompassed industry reports, government trade policies in Russia and Japan, and media accounts documenting market entry strategies and timelines. Triangulation was conducted by systematically comparing information across these sources. For instance, Huawei’s justification for entering Russia through joint ventures was cross-verified with regulatory metrics and contemporaneous media reports. This iterative comparison mitigates single-source bias, ensures accuracy, and strengthens the robustness of the study’s conclusions [19].

### 3.4. Analytical Framework

The analysis integrates several complementary frameworks. The CAGE framework is applied to systematically assess institutional distances across cultural, administrative, geographic, and economic dimensions [20]. SWOT analysis is used to evaluate strategic outcomes, emphasizing the interaction between Huawei’s internal capabilities and external institutional pressures [21]. The Uppsala internationalization model provides a theoretical lens for understanding the incremental and experiential aspects of international expansion, illustrating how firms gradually accumulate knowledge, manage the liability of foreignness, and adapt operation modes over time. Together, these approaches allow a comprehensive examination of how Huawei navigates institutional heterogeneity, providing insights into the mechanisms driving foreign operation mode selection and strategic adaptation [22].

### 3.5. Additional Considerations

The study also accounts for temporal dynamics, recognizing that institutional conditions evolve over time. Observations focus on how changes in regulatory frameworks, market competition, and technology influence strategic decision-making. Ethical standards were maintained throughout the study by using publicly available information and ensuring accurate representation of Huawei's strategies without disclosing sensitive internal data. This methodological approach provides a replicable framework for analyzing EM-MNE internationalization in diverse institutional contexts [23].

## 4. Case Analysis

### 4.1. Company Background

Founded in 1987, Huawei Technologies Co. Ltd. has evolved from a small telecommunications equipment reseller to a global technology leader. The company began international expansion in the late 1990s, initially targeting developing markets before entering developed economies.

Huawei's internationalization strategy reflects classic Uppsala progression, beginning with exports to neighboring markets before establishing overseas operations. By 2020, international revenues exceeded 60% of total sales, demonstrating successful global expansion.

### 4.2. Huawei in Russia: Collaborative Entry for Institutional Legitimacy

Huawei's entry into Russia in 1997 exemplified strategic adaptation to high institutional distance. Confronting pervasive administrative hurdles—including opaque regulatory frameworks, political volatility, and weak contract enforcement—the firm prioritized collaborative modes despite geographic proximity to China [24]. To navigate this complex environment, Huawei established international joint ventures with key local partners, leveraging their regulatory networks and market expertise. This approach generated critical advantages: it mitigated risk through shared political exposure and operational burdens, enhanced local legitimacy via partners' established government relationships, and accelerated market access by bypassing bureaucratic barriers [25].

However, the IJV strategy incurred significant tradeoffs. Limited operational control impeded technological standardization, while knowledge leakage to Russian partners constrained Huawei's proprietary capability development. Cultural conflicts in management styles further exacerbated coordination costs, particularly in R&D synchronization. Crucially, dependence on partners' commitment created strategic vulnerability; when VimpelCom shifted procurement policies in 2008, Huawei's revenue growth stagnated for 18 months. These outcomes underscore how administrative distance compels tradeoffs between legitimacy acquisition and strategic autonomy in institutionally distant markets.

### 4.3. Huawei in Japan: Committed Investment for Capability Access

Huawei's 2005 entry into Japan illustrates how low administrative distance can enable leapfrog internationalization. Although cultural divergence was significant, Japan's transparent regulatory frameworks—particularly robust intellectual property protection and stable policy environments—permitted immediate high-commitment modes. Huawei established wholly-owned subsidiaries in Tokyo and Osaka while negotiating strategic licensing agreements with technology leaders Sony and Panasonic, facilitating access to cutting-edge optical and semiconductor technologies. Concurrently, the firm invested \$200 million in Yokohama R&D centers to develop 5G solutions tailored to Japan's sophisticated infrastructure demands.

This integrated FDI-licensing approach yielded critical advantages: Operational autonomy accelerated product localization, capturing 17% of the enterprise network market by 2015. Direct technology absorption through licensing enhanced core patent portfolios.

The firm also enhanced brand credibility through partnerships with leading Japanese industrial companies.

However, the strategy incurred substantial adaptation costs. Cultural barriers in hierarchical decision-making delayed product approvals, while keiretsu supply networks limited component sourcing flexibility. Intense competition from NEC and Fujitsu compressed profit margins, forcing Huawei to absorb \$380 million in operational losses during 2008-2012. These challenges underscore the EM-MNE paradox in advanced markets: institutional compatibility enables control but demands exceptional resource commitment to overcome embedded competition and cultural complexity.

## 5. Findings and Discussion

### 5.1. Institutional Asymmetry in Operation Mode Selection

Huawei's strategic divergence stems from administrative distance's primacy over cultural distance. In Russia, elevated administrative-cognitive distance compelled collaborative IJVs to mitigate institutional voids, enforcing gradual commitment escalation. Conversely, Japan's administrative transparency-despite high cultural distance-enabled immediate wholly-owned FDI, leveraging licensing to navigate residual cultural barriers.

This contrast reveals: Administrative proximity liberates EM-MNEs from incremental internationalization, permitting control-intensive modes; Cultural distance becomes tractable through contractual governance when administrative institutions align; EM-MNE strategy decouples distance dimensions, prioritizing administrative compatibility for capability-driven expansion.

The findings recalibrate institutional theory, positioning administrative distance as the key moderator of cultural distance's impact on operation mode choice.

### 5.2. Institutional Distance Impact

The findings support our research proposition, demonstrating that institutional distance significantly influences FOM selection. Specifically:

**Administrative Distance:** Higher administrative distance (Russia) favored collaborative modes, while lower distance (Japan) enabled wholly-owned operations.

**Cultural Distance:** Despite high cultural distance in both markets, other institutional factors proved more influential in mode selection.

**Economic Distance:** Lower economic distance (Japan) supported higher-commitment modes, while Russia's economic volatility favored risk-sharing approaches.

### 5.3. Performance Implications

The different operation modes yielded distinct performance outcomes:

**Russia:** IJVs provided market access and risk mitigation but limited strategic control and capability development.

**Japan:** FDI enabled greater control and capability building but required higher resource commitments and risk exposure.

### 5.4. Theoretical Contributions

This study contributes to international business theory by:

**Extending Institutional Theory:** Demonstrating how different dimensions of institutional distance have varying impacts on MNE strategies.

**Uppsala Model Application:** Showing how Chinese MNEs may not follow traditional incremental internationalization patterns when institutional conditions favor higher-commitment modes.

**EM-MNE Literature:** Providing evidence of how Chinese firms adapt strategies based on institutional contexts rather than following uniform approaches.



## 6. Implications and Future Research

The findings yield a contingency framework for emerging-market MNEs from China navigating institutional heterogeneity. Practitioners should prioritize multidimensional institutional assessment using CAGE metrics before operation mode selection, identifying administrative transparency as the pivotal determinant. In high-distance markets, mitigate institutional voids through rigorous partner screening—selecting local allies with complementary regulatory networks and aligned strategic incentives to share political risks. Conversely, in low administrative-distance contexts, capitalize on institutional compatibility by deploying high-commitment modes like wholly-owned subsidiaries to accelerate proprietary capability development. Crucially, reject standardized global templates; instead, dynamic strategic adaptation must respond to jurisdictional variations in regulatory enforcement and cognitive norms. This approach allows institutional distance to be utilized not merely as a constraint but as a strategic mapping tool.

This study's scope presents defined boundaries for scholarly advancement. Generalizability constraints arise from single-firm analysis, urging future work across other large Chinese MNEs to test the universality of institutional asymmetry. Temporal dynamics warrant longitudinal examination of how regulatory shifts in major emerging markets reshape strategic adaptation.

## 7. Conclusion

This study establishes administrative distance as the pivotal force shaping emerging-market MNEs' (EM-MNEs) operation modes, using Huawei's contrasting strategies in Russia and Japan to provide empirical evidence on how institutional factors interact with cultural and economic distances to influence strategic decisions. The findings demonstrate that in markets with high administrative distance, collaborative modes such as joint ventures are often necessary to mitigate regulatory and political risks, whereas in low administrative distance contexts, high-commitment modes such as wholly-owned subsidiaries enable rapid capability development and operational control.

For practitioners, the study offers a comprehensive contingency framework for navigating institutional heterogeneity, highlighting the importance of multi-dimensional institutional assessment, partner selection, and adaptive resource allocation. Firms should consider administrative, cultural, and economic factors in tandem when designing foreign operation modes, leveraging institutional compatibility to accelerate internationalization while managing potential risks.

From a theoretical perspective, the research recalibrates institutional theory and extends the Uppsala model by showing that administrative distance can override cultural distance in shaping internationalization pathways, thereby providing a more nuanced understanding of EM-MNE strategies. The study also contributes to literature on emerging-market internationalization by illustrating how firms dynamically adapt strategies to heterogeneous institutional environments rather than following uniform incremental patterns.

Finally, the study points to future research directions, including comparative analyses across multiple EM-MNEs, longitudinal studies examining the effects of evolving regulatory landscapes, and investigation into how technological and network factors interact with institutional distances. As EM-MNEs continue to globalize, effectively adaptive, institutionally grounded strategies will be central to sustaining competitive advantage, shaping both operational success and long-term growth in diverse international markets.

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