

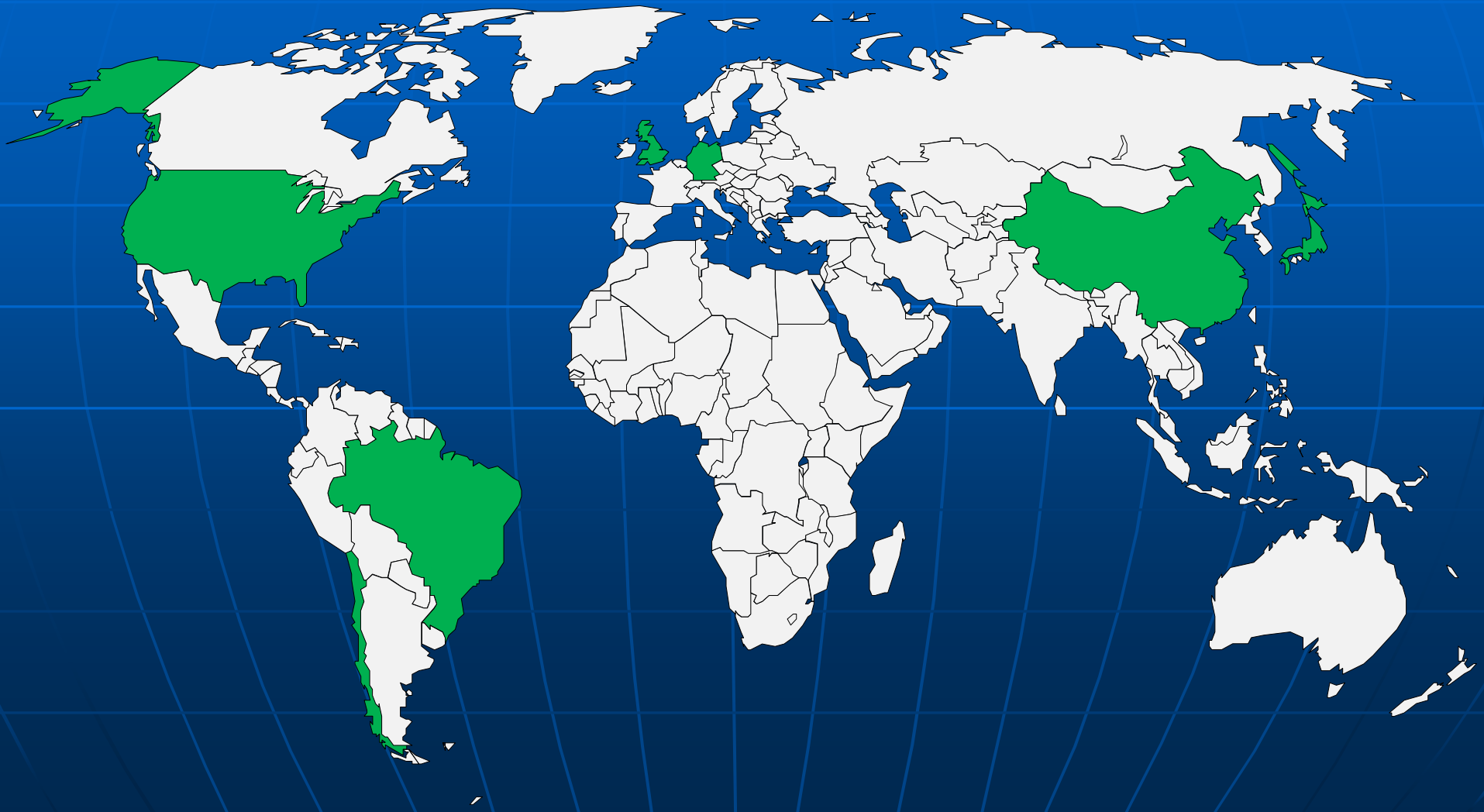
Global Legitimacy, Local Legitimacy and the Incomplete Implementation of a Diffused Practice: Neoliberal Reform in the Global Electric Power Industry

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Countries with >10% of generating capacity in private hands, 1989



Overview

- What led governments that adopted neoliberal infrastructure reforms subsequently to change course?
- Neoinstitutional model of incomplete implementation of diffused practices
- Econometric analysis of government renegotiations of (almost) all private power generation projects, 1989 – 2001

Neoinstitutional theory and diffusion

- Early neoinstitutional research emphasized persistence, stability, homogeneity (e.g., DiMaggio and Powell, 1983)
- More recent work has begun to examine
 - Processes of institutional change (e.g., Oliver 1992)
 - Sources of organizational heterogeneity (e.g., Lounsbury 2001)
- Most diffusion studies still stop at decision to adopt
 - Passive and conforming implementation assumed
- We ask, what leads organizations to incompletely implement diffused practices following adoption?

Global and local legitimacy

- Legitimacy
 - Generalized perception or assumption of propriety
- Org. decision-makers (governments) face dual pressures
 - Global legitimacy in international community (multilaterals, peer states, NGOs, elites, ...)
 - Local legitimacy among organizational members (citizens/voters/selectorate)
- Global legitimacy → adoption of diffused practices
 - International pressures → infrastructure reform (HZG 2005)

What leads to incomplete implementation?

- Diffused practices may not be fully implemented when:
 - They conflict with local norms, values, beliefs and definitions
 - Global pressures associated with adoption shift or subside
- Indicator of incomplete implementation is incidence of renegotiation
 - Political transaction costs → status quo bias in formal policies
 - Case-by-case renegotiation → retention of ceremonial benefits where local and global legitimacy pressures conflict

Local legitimacy: background

- Institutions characterized by cognitive legitimacy
 - “Taken-for-grantedness” develops through socialization process
- Newly adopted practices lack cognitive legitimacy among an organization’s members (citizens)
 - Subject to period of explicit assessment by local actors
- Local legitimation mechanisms during assessment period
 - Self-interested assessments → pragmatic legitimacy
 - Normative assessments → moral legitimacy
 - Familiarity & comprehensibility → degree of evaluative behavior

Local legitimacy: hypotheses

- H1: Stronger industry performance → ↓ renegotiation
 - Economic benefits → ↑ pragmatic legitimacy
 - Improved aggregate performance → ↑ moral legitimacy
- H2: Time since reform adoption → ↓ renegotiation
 - Development of constituencies → ↑ pragmatic legitimacy
 - Acclimation to neoliberal ideals → ↓ evaluative behavior
 - Later adopters → ↓ pragmatic & moral legitimacy
- H3: More + sentiment toward business → ↓ renegotiation
 - Pre-existing cognitive constructs may help or hinder legitimation
 - Positive categorical assessment → ↑ moral legitimacy
 - Comprehensibility → ↓ evaluative behavior

Global legitimacy: hypotheses

- H4: ↑ renegotiations by governments of closer trade partners → ↑ renegotiation by a focal government
 - Closely-tied peers emulate each other (normative emulation)
 - Interventions by peers signal shifting norms
- H5: ↑ renegotiation by governments of stronger trade competitors → ↑ renegotiation by a focal government
 - Uncertainty + resource needs → imitation (competitive mimicry)
 - Interventions by competitors again serve as a signal
- H6: ↓ indebtedness to multilaterals → ↑ renegotiation
 - Coercive influence → initial decision to adopt
 - Reduced indebtedness → reduced salience of powerful global elites

Data

- 974 private power projects in 83 countries, 1989 – 2001
 - All projects except for those in U.S. and Canada
- Unit of analysis is country-year
- Dependent variable is count of “first” renegotiations
 - Change to formal project terms that reduces net revenues
 - Price caps, rate reductions, duration reductions, postponements....
 - Based on thousands of media sources & RA hours
 - Exceeds zero in 68 of 670 country-years, max = 19
 - Reflects renegotiation in >20% of projects

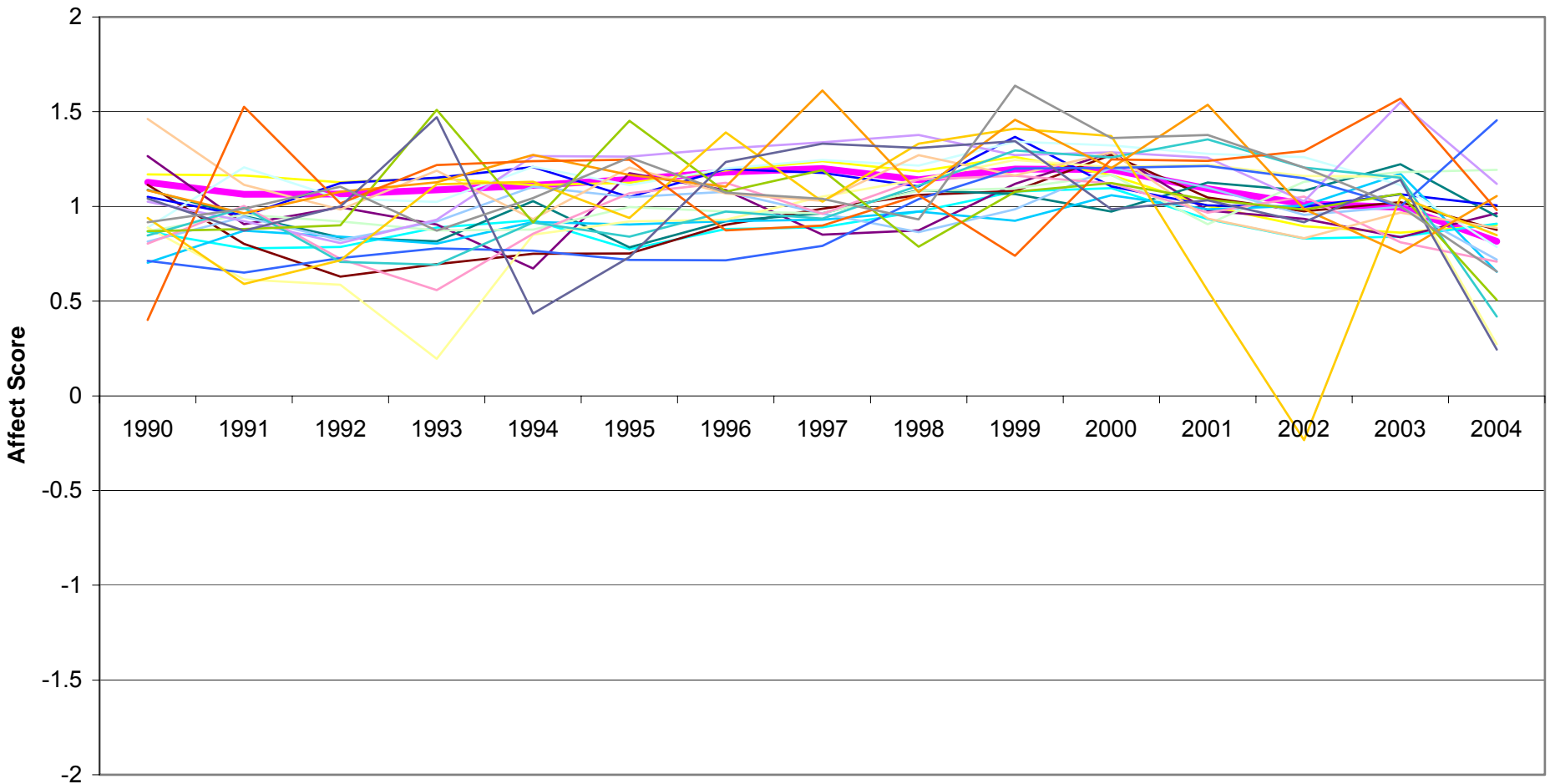
Measures: local legitimacy hypotheses

- H1: Industry performance = line losses
- H2: Time since reform = yrs since 1st reg reform or >10% of generating capacity in private hands
- H3: Sentiment toward business = discourse-based measure
 - Used natural language parser to analyze first sentence of all 8.52 million Reuters news stories, 1989 – 2001
 - Coded sentiment (“affect”) expressed toward business organizations by a country’s non-governmental actors
 - Used algorithms developed in conflict studies

Natural language parsing

- Subjects and objects grouped in 121 sectors, 17 levels
 - Sectors = legislators, unions, businesses etc.
 - Levels = domestic organizations, intergovernmental orgs etc.
- Events grouped into 157-category typology (IDEA)
 - Sentiment scored from -12 to 7
 - "Give ultimatum" = -11, "halt negotiation" = -6
 - "Optimistic comment" = +2, "promise policy support" = +6
- Three-year moving average by country-year
 - Ranges from -5.67 to 2.50, mean = .76

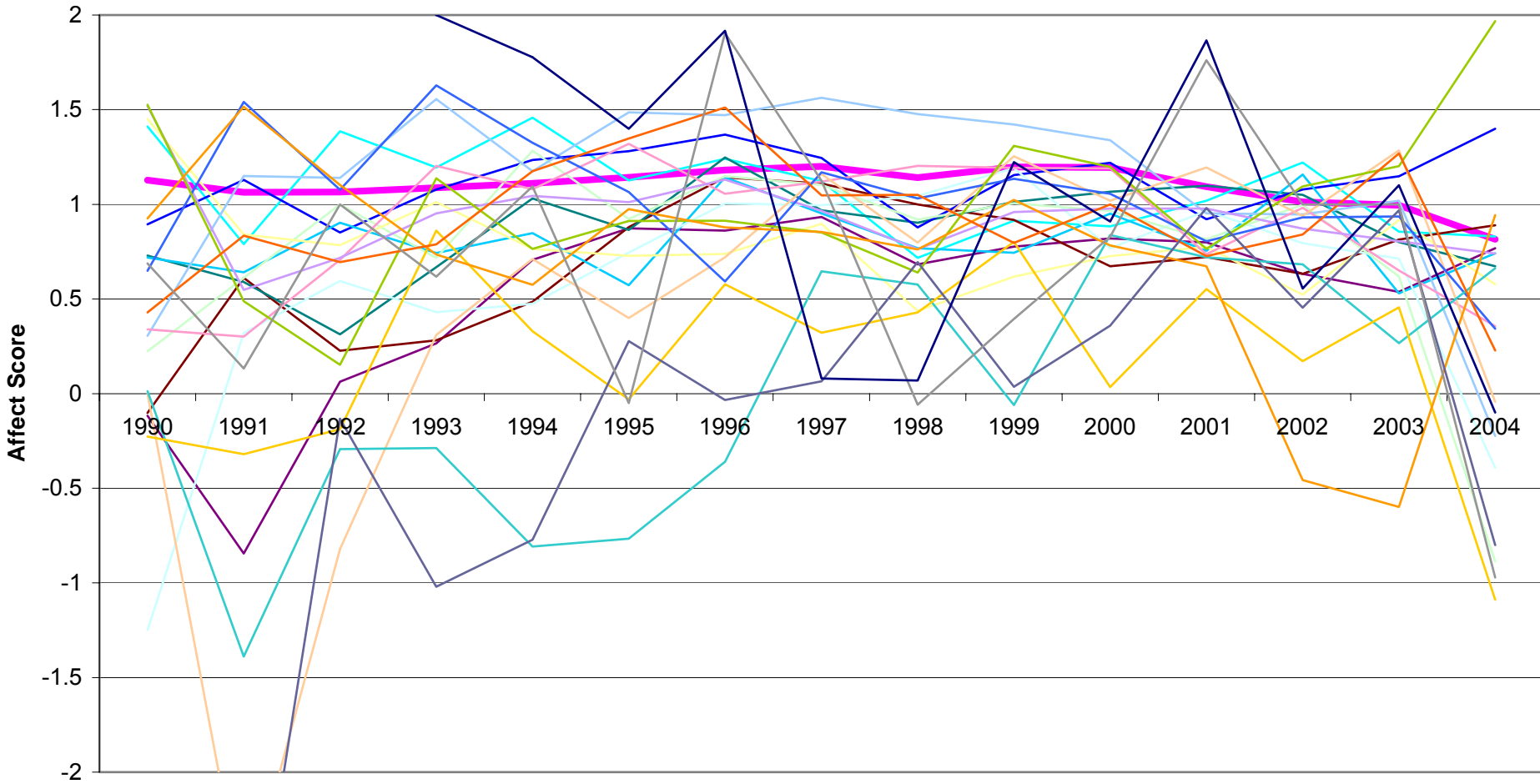
Affect Towards Business in Advanced Industrialized Nations



Event Year

- | | | | | | | | |
|-------------|--------|--------|-----------|---------|---------|---------|-------------|
| WORLD | USA | UK | Japan | Germany | France | Canada | Australia |
| Netherlands | Switz. | Italy | Singapore | Belgium | Sweden | Finland | New Zealand |
| Spain | Taiwan | Israel | Norway | Ireland | Austria | Denmark | |

Affect Towards Business in Emerging & Transition Nations



Event Year



Measures: global legitimacy hypotheses

- H4: Peer behavior = weighted sum of incidence of renegotiation in other countries
 - Weight = share of total trade with other country
- H5: Competitor behavior = weighted sum of incidence...
 - Weight = correlation coefficient for trade profile vectors
- H6: Multilateral exposure = borrowing from World Bank, IMF and regional trade banks as fraction of GDP

Other independent variables

- Per capita income
- Political constraints
- Average size of generating facilities
- Urbanization
- Inflation
- Number of projects in place

Econometric issues and models

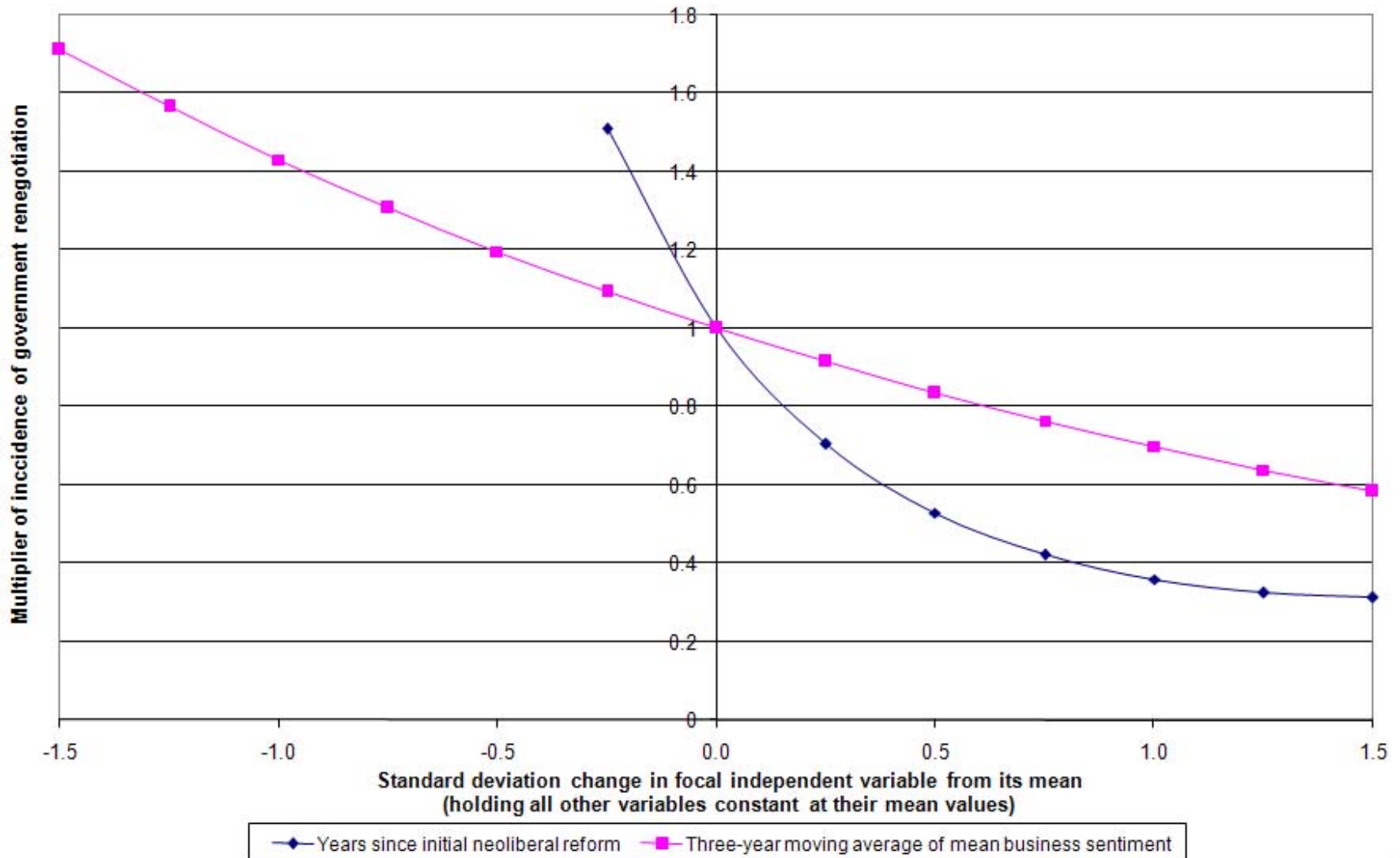
■ Issues

- Count data
 - Overdispersion
- Errors not i.i.d.
 - Multiple observations per country
 - Serial correlation

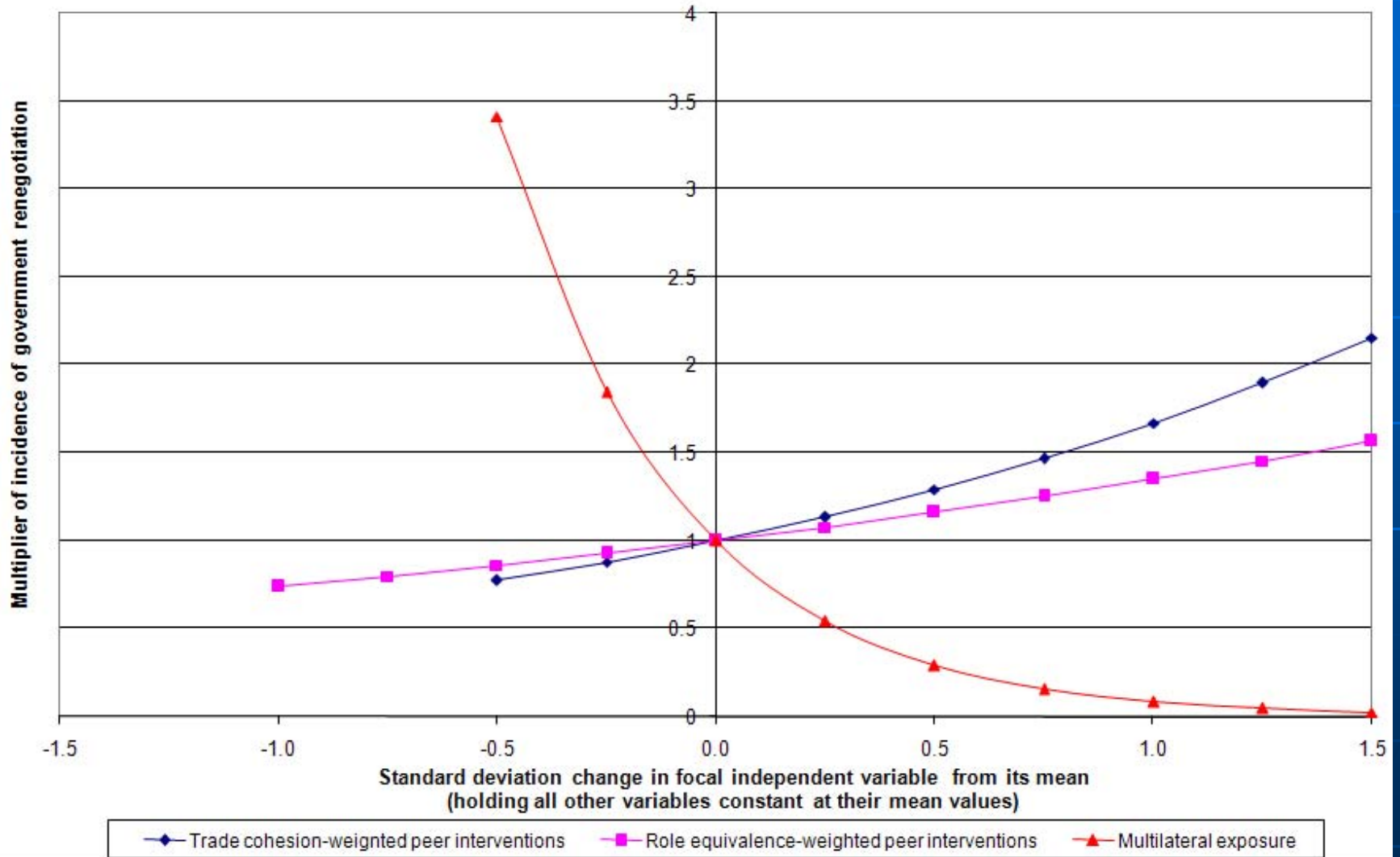
■ Models

- NB, robust standard errors, AR(1) (main spec.)
- NB, fixed effects
- NB, random effects
- Poisson, robust SEs, AR(1)
- Poisson, fixed effects
- Poisson, fixed effects, robust SEs
- Poisson, random effects

Local legitimacy



Global legitimacy



Robustness

- Alternative definitions of time-since-reform
- Other variables
 - Change in leadership
 - Level of democratization
 - Government share of national output
 - Direct measure of later adopter status
 - Regulatory independence
 - Level of SOE privatization

Summary

- Why are diffused practices incompletely implemented?
- Interplay of pressures for global and local legitimacy may lead governments to renegotiate after adoption
- Empirical evidence from electric power industry
 - Unique dataset
 - Novel discourse-based measure of cognitive constructs

Implications

- Studies showing benefits of privatization may reflect a selection bias
- Multilaterals & other international actors pushing neoliberal reform should consider institutional fit
- Managers attempting to implement practices in domain-spanning units should consider local context

	Government renegotiations	Change in industry performance	Years since initial reform	(Years since initial reform)^2	Three-year moving average of mean business sentiment	Trade cohesion-weighted peer renegotiations	Role equivalence-weighted peer renegotiations	Multilateral exposure	Log (megawatts)	Log (per capita gross national income)	Per capita income growth	Urbanization	Inflation (CPI)	Political constraints index (POLCON)	Count of projects
<i>Full Sample (n = 670)</i>															
Mean	0.29	-0.26	6.59	136.78	0.76	0.16	0.01	0.06	4.64	8.84	2.19	60.61	24.90	0.55	8.73
Standard deviation	1.44	3.43	9.67	313.71	0.66	0.27	0.02	0.10	1.12	1.00	3.32	22.66	176.85	0.29	14.82
Minimum	0.00	-26.41	0.00	0.00	-5.67	0.00	-0.02	0.00	2.30	6.08	-14.29	9.38	-3.96	0.00	1.00
Maximum	19.00	11.99	40.00	1600.00	2.50	2.95	0.12	0.69	7.60	10.79	14.44	100.00	2947.73	0.89	101.00
<i>Renegotiation > 0 (n = 68)</i>															
Mean	2.88	-0.64	6.69	138.90	0.69	0.20	0.01	0.05	4.96	8.49	1.87	54.54	11.01	0.55	24.87
Standard deviation	3.61	3.51	9.77	341.31	0.53	0.23	0.02	0.05	0.77	0.86	3.85	25.14	17.34	0.31	25.64
Minimum	1.00	-9.69	0.00	0.00	-1.22	0.00	-0.01	0.00	3.13	7.06	-11.14	10.32	-1.71	0.00	1.00
Maximum	19.00	7.88	37.00	1369.00	2.33	1.05	0.10	0.21	7.36	10.12	8.26	91.40	88.10	0.86	101.00
<i>Renegotiation = 0 (n = 602)</i>															
Mean	0.00	-0.21	6.57	136.54	0.76	0.16	0.01	0.06	4.61	8.88	2.23	61.29	26.50	0.55	6.90
Standard deviation	0.00	3.42	9.67	310.75	0.71	0.28	0.02	0.11	1.14	1.01	3.25	22.29	186.61	0.29	11.76
Minimum	0.00	-26.41	0.00	0.00	-5.67	0.00	-0.02	0.00	2.30	6.08	-14.29	9.38	-3.96	0.00	1.00
Maximum	0.00	11.99	40.00	1600.00	2.50	2.95	0.12	0.69	7.60	10.79	14.44	100.00	2947.73	0.89	100.00
Government renegotiations															
Change in industry performance	-0.10														
Years since initial reform	-0.05	0.11													
(Years since initial reform)^2	-0.05	0.10	0.96												
Three-year moving average of mean business sentiment	-0.03	0.10	0.12	0.11											
Trade cohesion-weighted peer renegotiations	0.06	-0.03	0.21	0.17	-0.01										
Role equivalence-weighted peer renegotiations	-0.02	0.00	0.01	0.02	0.03	0.12									
Multilateral exposure	-0.01	-0.24	0.10	0.06	-0.18	0.18	-0.08								
Log (megawatts)	0.04	-0.05	0.09	0.09	0.18	0.02	0.10	-0.12							
Log (per capita gross national income)	-0.11	0.16	-0.04	-0.01	0.34	-0.16	0.08	-0.71	0.20						
Per capita income growth	-0.09	0.04	0.06	0.06	0.04	-0.10	0.11	-0.10	0.05	0.01					
Urbanization	-0.10	0.08	-0.05	-0.04	0.32	-0.14	0.02	-0.53	0.22	0.77	-0.09				
Inflation (CPI)	-0.01	-0.03	-0.08	-0.05	-0.06	-0.06	-0.05	-0.02	0.01	-0.04	-0.08	0.05			
Political constraints index (POLCON)	0.00	0.10	-0.02	-0.04	0.14	-0.01	0.01	-0.37	-0.08	0.53	-0.05	0.40	0.07		
Count of projects	0.33	-0.01	-0.03	-0.11	0.07	0.07	0.08	-0.13	0.09	0.02	0.05	0.00	-0.04	0.06	

