1. RESEARCH ON THE MANAGEMENT OF ENTERPRISES IN THE PEOPLE’S REPUBLIC OF CHINA: CURRENT STATUS AND FUTURE DIRECTIONS

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The opening of the People’s Republic of China (PRC) to the external world has changed the economic landscape around the world. With China’s entry into the World Trade Organization (WTO), past speculations about China as a world economic power in the 21st century has become a reality few would dispute anymore. With more than 25 percent of the world’s population, China is a market that promises exciting opportunities for all multinational corporations. In the past 20 years, its GDP has increased more than tenfold (Ahlstrom, Bruton, & Lui, 2000), and its economic growth has been sustained at 8 percent every year (The Economist, 2001). The Economist forecasts that if China continues on the path of a market-based economy and adheres to its commitment to the World Trade Organization, by 2020, it will have grown to the size of the United States economy today. Most forecasts put China as the second-largest economy in less than 15 years.

Thus, encouraging evidence abounds to suggest a great potential for China’s continuing growth and expansion, domestically and globally. The leading companies in the major sectors in the domestic economy to date are all Chinese domestic firms. For example, Legend dominates the computer industry, Haier dominates the home appliances sector, and China Mobile has the majority market share in the mobile communications industry. Further, the private sector (comprising all non-state-owned firms), which was
nonexistent prior to 1979, along with the foreign-invested and -managed firms, now produces almost two-thirds of the annual GDP. Clearly, such progress does not happen by chance; most would agree that it is impressive given the underdeveloped technological and management know-how that characterized the nation prior to the start of the economic reform 20 years ago.

Social science research, especially that addressing the questions of economic incentives, corporate governance, management systems and control, career mobility and income inequality, consumer preferences, worker attitudes and performance, or the general question of organizational effectiveness and efficiency, was not relevant prior to the reform. Now, these are critical issues that are studied by economists, sociologists, and psychologists alike. Over the past 20 years, a body of literature has been accumulated that relates to the impact of economic reform and restructuring on organizations, employees, households, and industries. Yet research on this territory is in its infancy. Much more is needed to understand the growth, development, and change processes that are being experienced by companies in all the sectors, companies that are state-owned, privately financed and managed, or foreign-invested. In this developmental process, there is a critical need for management knowledge that is relevant for all kinds of firms operating in this changing and dynamic context. This volume is intended to add to the knowledge on management of enterprises in the Chinese context.

In this introductory chapter, we first provide a general overview of the environmental changes affecting firms and important changes occurring at the firm level (e.g., governance), especially the changes in the past ten years, as an update to other publications that discuss changes since the economic reform (Lin, Cai & Li, 1996; Shenkar, 1991). Then, we review the current status of research on PRC firms that has been published in the leading international journals. We will focus on the most influential publications identified by Li and Tsui (2002). We provide a summary of the issues studied in these influential studies and their major findings. We conclude with an observation and an appeal for more inductive and indigenous research. Lastly, we offer an overview of the chapters in this volume and point out some special features that make this volume unique in its contribution to the knowledge base on enterprise management in the Chinese context.


The first ten years of economic reform in China (1978–88) resulted in rapid growth in all sectors. The double-digit growth rate led to high
inflation and unbalanced development in the economy (Hsu & Li, 1996). The central government therefore instituted a number of changes in 1988 to stop the overheated economy by introducing “macro adjustment” policies. These policies had the dual objectives of suppressing local aggregate demand and creating a favorable economic environment for the reform of state-owned enterprises (SOEs).

The macro adjustment policies were effective in reducing the high industrial growth rate. However, they also had unexpected negative impacts on state-owned enterprises. For example, with suppressed demand, firms experienced poor cash flow, high debt, low supplies of energy and raw materials, and high inventory levels. In order to solve the problems faced by state-owned firms, the government gave more autonomy to them in producing market-oriented products. The central government also lowered financing interest rates, restructured the firms, and thus increased productivity. In 1990 and 1991, the total production value of all firms in the nation had increased by 9 to 11 percent, while labor productivity also increased, by 7.4 percent (Hsu & Li, 1996). The firms had also improved their technological capabilities during this short period.

In addition, the central government introduced more changes at the macro level. For example, there was a restructuring of industry by putting more emphasis on secondary and tertiary sectors. The government encouraged the restructuring of big SOEs by means of mergers and acquisitions or alliances. Hence, a number of large enterprise groups were formed. These large conglomerates were given the responsibilities of sharing resources and management know-how. The government also aimed to integrate the supply of raw materials, production, and sales and distribution. In a study of the largest 40 enterprise groups (with a total of 535 member firms) during the period 1988–90, Keister (1998) found that their performance was by and large acceptable.

According to a study by the Academy of Social Sciences (1996), as of March 1994, enterprise groups registered at various industrial and commercial bureaus amounted to 18,000. By June 1995, the registered numbers were over 20,000, with 57 of them chosen as experimental groups or test points (xidian) in 1996. The China Economic Yearbook (1999) gave a more conservative number. By the end of 1999, the number of approved enterprise groups at the provincial and departmental levels and up was 2,767. Their value was 51.3 percent of the assets of all state-owned and large non-state owned enterprises. There were 126 groups chosen by the State Council as test points. Regardless of the actual number, one point is clear. Enterprise groups are serious players in the economic arena of China today. Most of them appear to be restructured SOEs in disguise.

Clearly, there are still a lot of problems in the SOEs. Most of the SOEs are too large to change. Although autonomy was given, they still had
a number of social responsibilities to bear. The heavy social and political burden constrained the capacity of these firms to change. The firms were still under a contractual agreement to produce certain quantities and types of products for the state. In addition, price and fiscal reform was not yet compatible with enterprise reform. Seeing this difficulty, the government designated some enterprises to pilot-test various incentive schemes, including taxation, contract system, pricing, and retaining profits.

The year 1992 is a critical year in enterprise reform. It was in this year that Deng Xiaoping made his southern tour and the 14th Chinese Communist Party Congress was held. At this meeting, it was made very clear that China had adopted a socialist market economy as its major reform direction. This started the third stage of enterprise reform (Chen & Lau, 2000). Among the initiatives, the most important ones were the affirmation of a market focus and decentralization, as well as corporatization. It was agreed that firms were to develop along a modern corporate mode in the sense that a shareholding system would be the dominant governance model. Further, firms would be managed by professional managers subject to the monitoring of a board of directors who were representatives of the shareholders.

The Shanghai and Shenzhen Stock Exchanges began operation in December 1990 and July 1991, respectively. This helped the development of a capital market in socialist China. In 1992, for example, following the corporatization initiative, 53 share companies were formed in Shanghai, and 29 of them were listed on Shanghai’s stock exchange. By March 1993, 41 firms were listed on the Shanghai and 24 on the Shenzhen exchange. To complement the mode of a modern corporation, the Company Law was passed in 1993. This Company Law has provided an important framework in establishing and governing firms. It outlined the major requirements for establishing limited companies and share companies. Basically, the form of a modern corporation was described, including the rights and responsibilities of owners and shareholders, boards of directors, and supervisory boards, as well as related governance mechanisms, financial disclosures, bankruptcies, and other legal requirements. Corresponding changes at the firm level were also instituted. There was a reform in employee management policies. The “iron rice bowl” policy was abolished in some instances. Performance-based competitive reward was introduced, coupled with probationary employment and the contract staff concept, as well as a wage system.

The year 1992 also reaffirmed the importance of private enterprises in the national economy. It was formally acknowledged that private enterprises could engage in various business activities, including buyouts of SOEs and collectives. The gross output value of private enterprises was only 128.8 billion yuan in 1988. It reached 1,927.4 billion in 1994. The
non-state and non-collective sector accounted for 30 percent of the gross industrial output in 1995 (Chen & Lau, 2000). One reason for this rapid development is the slack manpower from poorly performing state enterprises and the opportunities given to town and village enterprises and individual households. The national policy of relaxing the type of industries that private businesses could venture into also helped the development of this sector (Lau, Ngo, & Chow, 1999).

In 1997, the Chinese Communist Party held its 15th congress, and it was resolved to intensify the reform. The *zhuda fangxiao* policy was adopted, the policy of grasping large enterprises and letting go of smaller ones. That is to say, the central government would continue supporting the management and operations of large and key SOEs but give few resources to smaller SOEs. The smaller ones could lease and sell their assets, work with other enterprises to continue the business, or even declare bankruptcy. In 1997, the average growth rate of state-owned industrial enterprises was only 6.4 percent, whereas the collectives and other industrial enterprises grew at 15.2 and 18.3 percent, respectively (Li & Zhu, 1999).

In the late 1990s and in the year 2000, more reform policies were implemented. The changes in macro policies and legislation helped resolve problems in pricing and markets. A change in social security systems also relieved the heavy social burden. With continuous restructuring through mergers and acquisitions, and even bankruptcy, some poorly performing SOEs were able to regain competitiveness. By relaxing employment contracts through withdrawals or layoffs, firms were able to utilize resources more efficiently. The introduction of the “debt-to-share” policy also helped some firms to reduce debt burdens by treating them as capital investments by debtors.

The reform of SOEs is the most difficult issue in the economic reform. After taking various measures, including reforms in financial and fiscal policies, some SOEs showed improvement. At the end of 2000, it was reported that the realized profits of the state-owned and state-holding companies had reached 239.2 billion yuan, nearly twice the profits of 1997. Twelve out of 14 key industries had become profitable (the exceptions were the coal ore and military goods industries). Four hundred and thirty designated state-owned or state-holding enterprises have corporatized. This achievement absorbed the effect of the Asian currency crisis in late 1997. The reform of government bureaus and departments by hiving off some units was also an inducement for more competitive firms. As a result of this reform, 21 million employees have “withdrawn” from SOEs since 1997. This has lightened the social burdens of many SOEs.

Private enterprises and town and village enterprises are important components of the state economy (Ng, 2000). Their share of total industrial production value has increased tremendously, being close to 70 percent in
1998 (Lau & Busenitz, 2001). In 1999, there were 20.2 million persons engaged in private businesses, with a total of 3.2 million investors. The number of establishments reached 6.12 million in 1999. The total industrial production value of the state sector dropped to 28 percent.

Foreign firms have also increased over the years. In 1999, the numbers of registered firms with annual sales larger than 5 million RMB were 11,054 (foreign firms) and 15,783 (Hong Kong-Macau-Taiwan firms). The share of the total industrial production value of foreign and Hong Kong-Macau-Taiwan firms reached 16 percent of the national’s overall industrial production. The growth of foreign investment has been phenomenal. In 2000, the growth rate of contracted foreign direct investment (FDI) was above 20 percent. According to the World Bank, foreign-funded enterprises now account for more than a third of China’s total industrial growth (Holland, 2001). In the banking industry, the International Finance Corporation, the private lending arm of the World Bank, bought 5 percent of the Bank of Shanghai in 1999 and 15 percent of Nanjing City Commercial Bank in 2000 (Murphy, 2001). These two banks are small local private banks with relatively young and open managers.

2. CURRENT ISSUES

Although enterprise reform has gained some notable ground since 1997, there are some critical issues that may hinder the future development of SOEs in China. Public ownership is still regarded as a major characteristic of Chinese firms. Since the enterprises are state-owned and controlled, the current governance structure is designed by the state, and managers are appointed by the state. Although a corporation mode has been adopted, there is no real separation of ownership and control. Moreover, the managers are officials, not entrepreneurs. They may not be able to function like professional managers. There is no real incentive for them to behave like entrepreneurs, even though they have the capabilities. Thus, they are ineffective governance agents. Since the legal environment is not yet mature for business operations, managers have room to shirk responsibilities and pursue their own interests (Lau, 1998). This situation is complicated by the existence of corrupt officials, which results in loss of state assets (Lin, Cai, & Li, 1999).

The focus of reform in China is primarily on the SOEs. These firms have a strong institutional nature (Boisot & Child, 1996; Child & Lu, 1996) in the sense that the government’s interference is not avoidable. Since the state firms are not going to be privatized, unlike those in the Western socialist countries, the support of macro economic and social policies is necessary for SOEs to continue the reform. The current labor, social security, and housing reform should be able to provide a more favorable environment
for these firms’ management of their resources (Lai, 2000; Leung, 1998; O’Leary, 1998). Nevertheless, China currently still lacks an efficient capital market (Ma & Wang, 1999). Proper development of the capital market would facilitate the governance and growth of SOEs.

However, successful SOE reform also requires strong managerial leadership. The current leaders of SOEs have not taken on leadership roles out of personal desire. Instead they have had to assume managerial leadership because of their official capacity (Fu & Wu, 2000). While they focus their energy on the survival and growth of their firms through competitive strategies, new product development, and alliances with foreign firms, they may have overlooked the importance of managing human resources and developing effective teams (Groves, Hong, McMillan, & Naughton, 1995; Warner, 1997). Their learning and managerial behavior with foreign partners are also critical in acquiring organizational knowledge for future development (Child & Markoczy, 1993; Child & Yan, 1999; Wang, 1992).

The high productivity of the non-state-owned sector has presented a number of challenges to SOEs (Perotti, Sun, & Zou, 1999). How SOEs respond and work with these “new” enterprises is a challenge to many business leaders and entrepreneurs (Lau & Busenitz, 2001). Their social and political network offers competitive advantage for these SOEs in many sectors. High-tech industry is potentially one such area (Zhao & Aram, 1995). Given their association with the Chinese Academy of Sciences and other research institutes, a number of SOEs are able to dominate the high-tech and communications markets. However, when the industry gets more mature, the network advantage may be imitated or even substituted with other forms of competitive resources. In addition, the private firms also need to build up connections to key resource controllers and powerful individuals since they are not operating in a pure market-based economy (Ahlstrom et al., 2000; Lau & Busenitz, 2001).

At a relatively micro level, the internal management system of Chinese firms (both state and non-state firms) in a globalized context is worth investigation. Moving from a planned to a market economy and from a domestic to a global focus, most firms are faced with the integration of Western and Eastern management styles and ways of doing business (Chen, 2001). This has become more important in international joint ventures and foreign-owned firms since entry into the WTO (Ahlstrom, Bruton, & Chan, 2001). Top managers therefore have to understand the cultural and social characteristics of their partners, and they themselves must also develop a global vision. Doing this will increase Chinese firms’ ability to change in the future.
3. ORGANIZATION AND MANAGEMENT RESEARCH IN THE PRC, 1984-2000

Since the inception of economic reform in 1979 and its subsequent development, the whole of China is like a large laboratory in which all kinds of economic, management and organizational experiments are being conducted. It is an exciting and fertile ground for social scientists studying the dynamic changes occurring at the industry, firm, employee, and household levels. Economists examine the impact of economic policies on the growth of different regions and the nation as a whole (Naughton, 1995). Sociologists study the effect of economic growth and corporate transformations on employment patterns, mobility, occupational stratification, household incomes, and property rights (Lin & Bian, 1991; Nee, 1989; Walder, 1992, 1995). Organization and management researchers analyze issues such as governance and structure of state-owned enterprises in the emerging market economy (e.g., Boisot & Child, 1988, 1996; Guthrie, 1997). Psychologists track the changing values of Chinese managers and workers (e.g., Ralston, Gustafson, Cheung, & Terpstra, 1992, 1997; Shenkar & Ronen, 1987) and the influence of culture on worker behavior (e.g., Chen, 1995; Earley, 1993, 1994). Some researchers focus on issues within Sino-foreign joint ventures (e.g., Luo, 1995; Yan & Gray, 1994).

In the past 20 years since the economic reform, several hundred papers and a large number of books have been written about Chinese organizations by academic scholars, journalists, and consultants. There are four reviews of academic journal publications related to management in the Chinese context. Peng, Lu, Shenkar, and Wang (2001) reviewed management and organizational research on greater China from 1978 to 1997. They analyzed publications in nine international journals and one regional journal. Li and Tsui (2000) analyzed the publications in 17 international academic journals from 1984 through 1998. They identified 145 publications and summarized the topics of these studies as well as their methods of inquiry. White (2002) focused on management in the Asian context, drawing on 840 articles from 30 journals (26 of these are in the Social Science Citation Index). The review by White included China and Hong Kong. Li and Tsui (2002) conducted a citation analysis on 226 papers published in 20 leading international journal between 1984 and 1999 and, through the citation analysis, identified the most influential publications. They found 52 articles receiving ten or more citations by other publications. Table 1.1 shows the journal titles and authors of the 52 articles, the journals in which they were published, and the number of citations received by each article. Out of the 52 most cited articles, only 36 focused on issues within the People’s Republic of China. These studies are highlighted in Table 1.1.
Table 1.1. Most-Cited Articles on Management and Organizations in Greater China

<table>
<thead>
<tr>
<th>Rank</th>
<th>Author</th>
<th>Journal</th>
<th>No. of Citations</th>
<th>Overall Rank</th>
<th>Rank</th>
<th>Author</th>
<th>Journal</th>
<th>No. of Citations</th>
<th>Overall Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Nee (1989)</td>
<td>ASR</td>
<td>95</td>
<td>1</td>
<td>Nee (1992)</td>
<td>ASQ</td>
<td>78</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Hamilton &amp; Biggart (1988)</td>
<td>ASJ</td>
<td>61</td>
<td>6</td>
<td>Yan &amp; Gray (1994)</td>
<td>AMJ</td>
<td>45</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>26</td>
<td>Zhao, Tuma, &amp; Moen (1997)</td>
<td>ASR</td>
<td>10</td>
<td>47</td>
<td>Oberschall (1996)</td>
<td>AJS</td>
<td>10</td>
<td>47</td>
<td></td>
</tr>
</tbody>
</table>

Note: Data are from the Social Science Citation Index, 1984-2000. Table is reprinted from Li and Tsui (2002). Articles highlighted in bold are studies on organizations that involve management issues in the People’s Republic of China. Citation counts are up to December 31, 2000. Rank is based on all 52 articles.

AMJ – Academy of Management Journal; ASQ – Administrative Science Quarterly; AJS – American Journal of Sociology; ASR – American Sociological Review; CQ – China Quarterly; HR – Human Relations; JAP – Journal of Applied Psychology;
The citation analyses by Li and Tsui (2002) offer support for the conclusion of Peng and his coauthors that “the overall number and, therefore, impact, of articles on Greater China is still limited” (2001: 98–99). There is a great need for high-quality research, guided by strong theory and systematic empirical data, on organization and management issues in the People’s Republic of China. With the increasing importance of China on the world economic stage, research on organizations operating in the People’s Republic of China will become even more important and urgent.

4. ISSUES ADDRESSED IN THE MOST-CITED WORK ON ORGANIZATION AND MANAGEMENT IN THE PRC

A variety of issues and a wide range of topics have been studied in the most influential articles (those with ten or more citations). Using the list of topic codes in Li and Tsui (2002), we categorized the 226 articles identified in the 20 leading international journals, the 52 most cited articles, and the 36 that address issues in the PRC setting. The results of this categorization are summarized in Table 1.2. The most interesting observation from this table is that none of the 28 studies, from among the 226, that focused on comparative analyses made the most-cited list. This finding could be a result of the non-theoretical nature of most cross-national comparative studies. We shall discuss this point further in the next section of this chapter. Below, we provide a summary of the major findings in the most cited articles. We consolidated the topics into six categories. They are: (1) the impact of economic reform on the governance and structure of state firms, (2) the influence of economic reform and Chinese culture on managerial behavior and values, (3) the influence of culture on worker attitudes and behaviors, (4) the influence of reform on careers, mobility, and income inequality, (5) the management of foreign-invested firms, and, lastly, (6) the rise of private enterprises.

4.1. The Impact of Reform on State Firms

One of the most written-about topics is the impact of economic reform on the governance and structure of the state firms. Boisot and Child (1988) discussed the transaction governance structure in China since the economic reform. They pointed out the possibility of multiple governance modes owing to the coexistence of central planning, economic reform, and Chinese culture. Later, they proposed that network capitalism was the emerging economic order in China (Boisot & Child, 1996). Peng and Heath (1996) also proposed, drawing on the Chinese example, that a network-based strategy of growth is most promising for firms in planned economies in
Table 1.2. Major Themes Studied in China-Related Organization and Management Articles

<table>
<thead>
<tr>
<th>Topics</th>
<th>Total of 226 Studies</th>
<th>52 Most-Cited Studies</th>
<th>36 Most-Cited Studies on PRC Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of Studies</td>
<td>% of Total</td>
<td>No. of Studies</td>
</tr>
<tr>
<td>1 Chinese culture, behavior, values, relations</td>
<td>43</td>
<td>19</td>
<td>6</td>
</tr>
<tr>
<td>2 Cross-cultural analysis, adjustment, negotiations</td>
<td>29</td>
<td>13</td>
<td>15</td>
</tr>
<tr>
<td>3 Comparative analyses</td>
<td>28</td>
<td>12</td>
<td>0</td>
</tr>
<tr>
<td>4 Joint venture control, learning, and performance</td>
<td>23</td>
<td>10</td>
<td>3</td>
</tr>
<tr>
<td>5 Organization structure and change</td>
<td>20</td>
<td>9</td>
<td>7</td>
</tr>
<tr>
<td>6 Market transition and reform</td>
<td>19</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>7 Mobility, stratification, income, HRM</td>
<td>19</td>
<td>8</td>
<td>5</td>
</tr>
<tr>
<td>8 Firm strategy and growth</td>
<td>16</td>
<td>7</td>
<td>3</td>
</tr>
<tr>
<td>9 Private sector firms</td>
<td>10</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>10 Research method, property rights, others</td>
<td>19</td>
<td>8</td>
<td>4</td>
</tr>
<tr>
<td>TOTAL</td>
<td>226</td>
<td>99</td>
<td>52</td>
</tr>
</tbody>
</table>
transition. These firms are able to achieve growth by pooling resources and coordinating activities among members of the network while avoiding the politically difficult task of ownership transfers. Nee (1992) observed that “marketized” firms have a distinct advantage over both private and nonmarketized firms because they have the advantage of both the redistributive and market sectors of the economy. Walder (1995) analyzed how jurisdictions at various levels of government respond in the transition economy. He found that local governments have less nonfinancial interest in enterprises and a greater capacity to monitor them. The phenomenon of bargaining and soft budget constraint is drastically reduced in the local governments, which perform better financially. Two studies focused on the competitive strategies of the firms. Guthrie (1997) found that in an environment of extreme uncertainty, both large and weak (poorly performing) firms tend to adopt a diversification strategy. These firms sought stability by spreading out risk through investment in low-risk, fast-return markets. Tan and Litschert (1994) reported that firms facing a high level of environmental hostility, dynamism, and complexity tended to have a defensive strategic orientation. These firms are less likely to adopt proactive, future-oriented, and more risky strategies. This finding is counter to those on U.S. firms, among most of which environmental uncertainty triggers proactive rather than defensive strategies. Indeed, as Peng and his coauthors noted, “Firms in Greater China (and in PRC specifically, we might add) have exhibited distinctive business strategies that dazzle and bewilder the outside world” (2001: 102). This suggests a wide-open topic for research. What are the competitive strategies used by Chinese firms? Are there differences between the reforming SOEs and the new private firms? Studies are needed to identify the strategy, structure, and governance of state-sector firms as they learn to operate in a market economy with changing institutional environment and declining state support.

4.2. Reform, Culture, and Managers

Another topic of strong interest is the influence of economic reform and Chinese culture on managerial behavior and values. Walder (1989) attempted to explain the puzzling managerial behavior during the reform in the 1980s. He observed that managers, while faced with administrative control on cash disbursements, turned to distributions in kind through welfare funds, rapid construction of housing, and other strategies to distribute income to their workers. Such behavior is understandable when he analyzed the “facts of life” of these factory managers. He concluded that it is China’s social and political institutions that simulated the observed managerial behavior. Shenkar and Ronen (1987) compared the work goals of U.S. and Chinese managers. A modern economy would encourage
convergence, and the national culture would suggest divergence, in managerial work goals. Shenkar and Ronen found both similarities and differences and could not resolve the convergence versus divergence debate. Adler, Brahm, and Graham (1992) observed more similarity than difference in the negotiation behavior of U.S. and Chinese managers. Both groups of managers used a problem-solving approach, but the Chinese managers asked a much higher percentage of questions than did their American counterparts. Child and Markoczy (1993) also observed similarity in local managerial behavior in joint ventures in China and Hungary, both undertaking market and economic reform. Both groups of managers exhibited defensive, conforming behavior, respect for authority, and maintenance of good relationships with higher-level officials. They linked managerial behavior to both state socialism and national culture. In a series of studies, Ralston and colleagues (1992, 1993) compared the managerial values of U.S., Hong Kong, and PRC managers. Later, they included Russia and Japan in the comparison (1997). The researchers proposed a “crossvergence” hypothesis in addition to the convergence and divergence hypotheses. They found evidence in support of all three hypotheses. The authors speculated that the crossvergence findings might be a stage in a dynamic evolution that is moving toward convergence (Ralston et al., 1993).

4.3. Chinese Culture and Workers

Further evidence is available on the influence of national culture on workers’ attitudes and behaviors. Chen (1995) compared the reward allocation preferences of a sample of U.S. and Chinese employees. He found that the Chinese preferred differential rules for reward allocation, whereas the Americans preferred egalitarian rules. Specifically, the Chinese had a differential preference for both material and socioemotional rewards, and the Americans had a stronger egalitarian preference for socioemotional rewards than for material rewards. The author reasoned that in the process of economic reform, reduced protection by the state and an increasingly competitive open market have caused a drastic change from sociopolitical to economic goals. This explains why economic goals dominate cultural values in resource allocation preferences among Chinese workers. Studies by Earley (1993, 1994), however, still showed the influence of cultural values on work behavior. In the 1993 study, Earley showed that Chinese with collectivistic values performed better when they were in workgroups comprising in-group members (defined as people sharing common backgrounds such as the same home town or school). In his 1994 study, he showed that collectivists, regardless of their nationality (US or Chinese), responded best to group-focused training in both a laboratory and a field experiment. These studies suggest that future research on the influence of
culture should directly measure the cultural value purported to be the causal agent. Given increasing variance in cultural values among Chinese employees as the society modernizes, direct measurement of cultural values will provide more accurate assessments of their effects.

4.4. Careers, Mobility, and Inequality

The issue of careers, mobility, and inequality resulting from economic reform has captured the interests of a group of sociologists. Walder (1995) examined the criteria for the selection of candidates into professional and administrative positions. He found that both educational and political credentials are important for administrative positions while professionals are screened on only educational credentials. Professionals, while enjoying high prestige, do not share the advantage in authority, income, and housing with the administrators. Nee (1989, 1991) theorized that a shift from a redistributive to a market economy should shift sources of power and privilege to favor producers relative to redistributors. He found that cadre status does not seem to confer economic advantage over entrepreneurs in a market economy. In another study, he found the contribution of a nonfarm worker to household income to be greater than that made by a cadre (Nee, 1996). In his sample of almost eight thousand households in rural China, the income gains of private entrepreneurs are greater than those of the cadres. These results support the claim of a declining power of the administrative elite as a function of the extent of market transition. Zhou, Tuma, and Moen (1997) examined job shift patterns during the reform era. They found that state organizations still offered strong incentives that operated to retain employees. Employment in private and hybrid firms has grown, but this growth seems to be due to departure from workplaces with less redistributive benefits rather than due to departures from state organizations. As in the prereform era, individuals with college educations, cadres, and professionals tend to have higher rates of internal job shifts (e.g., promotions) than those in less favored occupations or with less education. Lin and Bian (1991) found job movements to be usually from collectives to state sectors and from state enterprises to state agencies. Further, cross-sector and upward mobility is much stronger for males than for females. For males, both education and party membership contribute to this mobility, but for females education is the sole determinant. These studies seem to provide consistent evidence on the eroding power base of cadres in the marketized economy in terms of income. However, state organizations with strong redistributive benefits continue to be favorable employment settings. As state organizations continue to reform and their redistributive benefits become a smaller part of the total compensation package, employment patterns may also change.
further in the future. Future research on mobility across sectors and criteria for advancement will be important.

4.5. Foreign-Invested Firms

Although many studies of foreign-invested firms have been conducted, few appeared in the most-cited list. Beamish and Wang (1989) provided some descriptive information on 840 joint ventures in China. Although this study received much attention (based on citations), the descriptive information is outdated, given that much has changed since 1989. Yan and Gray (1994), using an inductive approach, analyzed the control issue in Sino-foreign joint ventures. Drawing on four cases, they proposed an expanded model, which shows the importance of sharing of management control, trust, commonality of strategic objectives, and institutionalization of goals to be important for joint venture performance. Luo (1995) focused on both firm-level strategic variables and industry-level factors in predicting joint venture success. He found the variables important for joint venture performance to be similar to those important in other economic contexts. The implication is that joint venture management may have a universal model. It is clearly premature to draw conclusions about joint venture behavior and performance in China on the basis of only a few studies. Also, there is a paucity of research on wholly owned foreign firms in China, though it has been suggested that these firms should perform better owing to the total control and absence of goal incompatibility or conflict in the management team of a wholly owned subsidiary (Vanhonecker, 1997). Comparative studies of the performance of foreign firms under different ownership structures are important and desirable.

4.6. Private Firms

Private firms constitute the youngest and the least-studied population of firms in the economic landscape of the PRC. Among the 52 most-cited articles, only two focus directly on the private economy (Entwisle, Henderson, Short, Bouma, & Zhai, 1995; Liu, 1992) and one other highly cited study compares managerial perceptions of the importance of guanxi in private, foreign, and state firms (Xin & Pearce, 1996). Liu (1992) analyzed the dominance of the private sector in the industrialization of rural Wenzhou. He concluded that a coincidence of interest between the local cadres and the peasants along with weak infrastructural power of the state explained the vicissitudes of economic activities in Wenzhou. Entwisle et al. (1995) tested two contrasting hypotheses on the role of women in household businesses. They found households with a large female labor pool
were not more likely than households with a small female labor pool to start and run a small business. Further, if a household operated a business, men were more likely than women to work in it. In these households, instead of working “inside,” women increasingly specialized in agricultural activities. Xin and Pearce (1996) compared the views of private firms’ executives to those of the executives of state-owned and collective hybrid firms. The private firm executives reported that *guanxi* connections were more important than did the other executives. They relied significantly more on building relationships with government officials and more extensively used gift giving to build these relationships. The authors reasoned that an underdeveloped legal framework made the private company executives more dependent on *guanxi* than were the executives in state-owned or hybrid companies. In general, studies on the private economy in China are few. There is a great need for research tracking the growth, development, survival, and success of this increasingly important sector in the emerging economy.

5. INDIGENOUS THEORY IN THE PRC

5.1. The Need for Theory Building

Even though we have provided a summary of the major findings in the most frequently cited organization and management studies of the PRC, we cannot draw any conclusions about the behavior of firms and of employees within these firms in this transition period from these studies. The findings are tentative at best, since most are based on one study only. Also, many of the findings are dated, since a lot has changed in the past ten years. For example, the values of employees and managers are continuing to change, given the flourishing influence of Western firms and of Western-style management education in China. The status of cadres, relative to that of entrepreneurs, also has further shifted with the progress of the private sector and its increasing economic power. The organization scene in contemporary China is a moving target, but it is precisely its dynamism that makes this context an exciting setting for studying organizational changes and their impact on individual workers, firms, industries, and the economy as a whole.

Another important observation on this body of research is that most of the influential research has an indigenous nature. By this, we mean that the context is explicitly modeled in the study, either as an independent variable (as in cross-cultural studies) or as a modulator variable. Table 1.2 shows that none of the studies focusing on comparative analyses were cited more than ten times – the criterion for inclusion in the most-cited list.
Comparative studies usually use “nation” as a category and compare differences on the main constructs of interest across national cultures. For example, Biggart and Guillen (1999) compared the rise of auto industries in Taiwan, Korea, Spain, and Argentina. Cheung and Chow (1999) compared managerial values in the People’s Republic of China, Hong Kong, and Taiwan. Though these studies are informative concerning national differences, the understanding remains broad rather than deep. The authors of the well-cited studies analyzed the issues as they exist in the context using an inductive approach or grounded theory building and elaboration. A good example of a contextualized approach is the study of bargaining power in Sino-foreign joint ventures (Yan & Gray, 1994). The authors began with an existing framework and proposed an expanded and revised model after four in-depth case studies. Another example is the study by Chen (1994), who used the economic changes in China to formulate a counterintuitive hypothesis (that Chinese prefer an equity rule over an equality rule). A defining characteristic of these most frequently cited studies is that they are all grounded with rich contextual information, which serves as the foundation for theory development and hypothesis formulation.

Contextualization is particularly important because of the deep cultural roots of China; the context is further complicated by the 50 years of Communist rule involving deep acculturation of communist ideologies as well as attempts to eradicate the historical roots of China during the Cultural Revolution, though to no avail. Contextualized research would take into account the influence of the deep cultural roots as well as modern political economics and emerging institutions in analyzing the behavior of firms and individuals inside firms. Contextualized research can take the form of both context-specific and context-sensitive approaches described by Whetten in this volume. Either approach requires deep knowledge of the local context. Therefore, contextualized research must be indigenous or local in nature.

Indigenous or local research does not mean compromising on the generalizability of the knowledge produced. Our idea of indigenous research is consistent with the “context-embedded” research that Cheng (1994) advocated for building universal knowledge. Cheng urged organizational scholars to “extend their research to incorporate the societal context into the analysis of organizations” (1994: 164). Although his focus is on cross-national studies, we see the need for single-country indigenous research to develop locally relevant and valid management models in order to contribute to the global management knowledge base. However, such research should build on existing knowledge and use current management models as starting points. By relating to models, theories, and constructs in the existing literature, the new findings can extend, add to, and perhaps even modify our current knowledge about management and enrich our understanding of management in the global context. We see the need for
international collaboration because therein lies the synergy that would facilitate high-quality creative work. Western scholars can bring knowledge about the existing literature, with its rich body of theories, constructs and research methods. Chinese scholars can contribute local knowledge, ensure high-quality data from local subjects, and provide meaningful interpretation of discoveries. Cheng pushed this collaboration one step further by suggesting that, “the contextual approach may help … focus the international team’s attention on the development of new theoretical propositions concerning societal influences on organizations. This will provide opportunities for all team members to contribute their insights into the theory-building process, thus facilitating the development of organizational knowledge that has global relevance” (Cheng, 1994: 167).

5.2. The Contribution of Indigenous Research to Global Knowledge

The first step in high-quality indigenous research is defining the meaning of constructs and developing indicators that are meaningful for the constructs in the local context. This is especially important for psychological constructs whose meaning is affected by the social and cultural context. For example, what does motivation mean in China, and what are the relevant measures? What about the concepts of fairness or justice, conflict or trust in the workplace? A “consideration behavior” performed by a leader in the United States (e.g., taking an employee to lunch) may be an organizational obligation behavior in China. Visiting a sick supervisor is expected of employees (as part of loyalty) in China but is not at all expected in the West. Farh, Earley, and Lin (1997) provided an excellent example of developing an indigenous measure of organizational citizenship behavior in Taiwan. They found some dimensions to be common with those in the existing (Western) literature, but they also found some dimensions to be unique to the Taiwan context. Chen, Tsui, and Farh (2002) developed an indigenous measure of loyalty to the supervisor. They included the two Western dimensions used to measure this construct (Becker, 1992) and, through interviews with local employees, identified three additional dimensions. They found the three additional dimensions identified in the Chinese sample to be much better predictors of employee performance than the two original dimensions generated in the West. This volume includes three chapters that focus on developing indigenous measures of organizational citizenship behavior (Farh, Zhong, & Organ, 2002), of employment relationships (Tsui, Wang, & Zhang), and of organizational culture (Xin, Tsui, Wang, Zhang, & Chen). At least two other chapters contain highly contextualized analyses. Meyer, Lu, Lan, and Lu (2002) inductively theorized about the nature of SOE reform. White and
Liu (2002) report an in-depth case study on the pharmaceutical industry and propose new theoretical insights on the role of incentives and networks on innovation in this industry.

The indigenous approach also promises to yield theories with stronger internal validity and external validity than would be attained by applying theories developed in different social and cultural contexts. It is well accepted that grounded theory building is appropriate when phenomena are ill defined and when existing theory cannot provide convincing answers to the research problem of interest (Eisenhardt, 1989; Lee, 1999). We argue that grounded theory building is a necessary step in developing management models that capture the richness of the Chinese context leading to internally and externally valid models for both local and foreign firms operating in this context. Once these inductively and indigenously developed models are confirmed, refined, or elaborated through deductive testing, we can compare knowledge generated in China on the phenomena with knowledge on similar phenomena described in the existing literature. Ideally, indigenous research should precede cross-cultural or comparative research. Until we have constructs that are meaningful and can be validly measured in the local contexts, the validity and value of cross-cultural research is greatly compromised. Only after we have established the validity of models for China can we have confidence in the results on studies that compare China with other social and cultural contexts.

High-quality indigenous research implies rigor in research design, including a careful sampling plan, appropriate data collection procedures, rigor in data analyses and summarization, and caution in parameter estimation or in deriving empirical generalizations. At this early stage of research on China, there is a need to build new theories of management and organizations. This means taking an inductive approach to construct development and theory construction. This further means qualitative methods are a necessary step and a desirable research tool. We encourage the use of ethnography, participant observation, in-depth interviews, and extensive case studies. Open-ended surveys are also a useful method for generating free responses to a general phenomenon that is easily understood through written instructions in a questionnaire. Both the Farh et al. and the Xin et al. studies reported in this volume utilized the open-ended survey method to generate initial items for defining the constructs of organizational citizenship behavior and organizational culture, respectively. Tsui and colleagues used both personal interviews and open-ended surveys to define firms’ employment relationships with managers by identifying the contributions expected of managers and the inducements offered to them by employers. In all three studies, the researchers identified dimensions of each construct (OCB, employment relationship, or culture) that are similar
to those found in the Western literature and dimensions that are unique to the Chinese context.

Fu et al. (2002), also in this volume, use focus groups and in-depth interviews to identify the characteristics of top management teams in young entrepreneurial firms. They propose a model that is an extension and expansion of the team model derived from a review of the existing literature. Meyer and his colleagues provide a most lucid example of highly contextualized inductive research. They interviewed the top managers of four state-owned enterprises in different industries. Guided by a list of questions that are not bounded by any single conceptual framework, they sought to understand the structure of these firms, their competitive strategy, relationships to government, suppliers, and customers, and performance goals and measures. Through this approach, they derived some insight into the reasons for why some SOEs fail while others outperform even their toughest competitors. They considered decentralized reform and local experimentation to be variance-producing mechanisms. Since performance is at the lower end before reform, most variance induced by reform would occur at the positive end of the variance curve. Such insight could not have been obtained if these researchers were to use the “permanently failing” model to study the Chinese SOEs – which could have occurred, since one of the research team is an author of the book *Permanently Failing Organizations* (Meyer & Zucker, 1989). The five chapters in this volume by Xin, Fu, Farh, Meyer, and Tsui and their respective colleagues all provide excellent examples of how we can push the frontier of knowledge through inductive and indigenous approaches on phenomena that have been well researched in the West. By not assuming that the existing measures or models are directly relevant for firms or employees in the Chinese context, and through rigorous methods with a contextualized approach, these authors have expanded our knowledge on these topics by producing results that are reliable, valid, meaningful and new.

Of course, there is also the danger of compromising on generalizability with highly contextualized research. This is the criticism often raised with single-case ethnographic studies. However, we must keep in mind that the goal of indigenous inductive research is to generate context-valid constructs and models. We can improve the generalizability of existing models into the international domain by grounding the research in existing literature. Such context-embedded research should contribute to universal knowledge (Cheng, 1994). If the models derived depart significantly from existing theories, the contribution is potentially more important. We can discover which of our existing theories are context-specific (to the West or to the East, or to both). For example, we might find that models of motivation or leadership to be different in different national contexts. Such context-specific knowledge may not be universally applicable (Cheng,
However, models indigenous to China, like models indigenous to the United States, to France, or to Brazil, as long as they are products of high-quality research, should contribute to global management knowledge.

We see global management knowledge as comprising three types of models. The first is models that are context-free, that is, applicable to any social, cultural, or political context. The study by Luo (1995) might offer a context-free model on the competitive strategies of joint ventures. Luo found that strategic variables that predict joint venture performance in China are similar to those found in other countries. The second type is context-embedded models, which involve context as an independent or moderating variable. The study by Earley (1993) is an example of a context-embedded model. He found managers with collectivistic values (mostly Chinese individuals) to perform better in in-groups than in out-groups or individually. Managers with individualistic values (mostly Americans) performed better when they worked individually than when they were in either of the two group conditions. Lastly, we may consider all models that have not been shown to be either context-free or context-embedded to be context-specific. This implies that most of models in the extant (Western) literature are context-specific (to the location where they were derived) unless they are proven not to be, through cross-cultural, comparative, or indigenous (i.e., contextualized) research. Included in this volume are examples of highly contextualized indigenous research, on issues at both firm and individual levels in the Chinese context.

6. OVERVIEW OF THE CHAPTERS IN THIS VOLUME

This edited book offers a variety of analytical perspectives on the management and control of Chinese firms, with particular attention to the transforming state-owned enterprises in the People’s Republic of China. The chapters concern transforming SOEs (Meyer et al.); the governance of SOEs (Fan, Lau, & Wu, Li & Wu); the role of CEO social capital for firm performance (Bian); the employment relationships of managers in SOEs and non-SOEs (Tsui, Wang, & Zhang); the meaning of organizational citizenship behavior (Farh et al.) and the nature of corporate culture (Xin et al.) in state-owned enterprises. Issue of stress (Xie) and turnover (Chen) in these enterprises are also addressed here. Other chapters are devoted to analyzing knowledge management (Lau, Lu, Makino, Chen, & Yeh) and leadership team characteristics in high-technology firms (Fu et al.); the role of networks in innovation (White & Liu); the efficiency of internal and external capital markets for a representative “red chip” group (He & Lu); and how firms in the telecommunications industry are responding to China’s entry into the WTO (Xu & Li). We provide some insight into the
leadership of four successful enterprises in the Chinese context through interviews with their CEOs. In addition, the volume includes a special chapter by Richard Scott, whom we asked to provide an analysis of the current organizational field in China using an institutional theory framework. After all, China is a story of changing institutions, and it is these institutional changes that are creating different meanings and realities for organizations, managers, and employees. Finally, the commentaries by Thomas Lee and David Whetten offer informed discussions of the contributions of the chapters in the volume. Lee focuses on the chapters that address issues at the individual and group levels. Whetten discusses the chapters that analyze problems at the firm or industry level. We will not discuss each chapter in detail here, given the inclusion of these informative analyses by Lee and Whetten.

A unique feature of this collection of studies is that most of them involve partnerships between one or more researchers in Hong Kong or overseas and one or more researchers working and living in mainland China. It is well known that the quality of data and entry to organizations are major barriers to conducting high-quality management research in the People’s Republic of China. These Chinese collaborators played a critical role in gaining access to organizations, facilitating data collection and providing knowledge about the context for accurate and insightful interpretation of the findings. The contextual knowledge of the indigenous setting offered by these Chinese scholars is an excellent and necessary complement to the conceptual and methodological skills offered by their partners, many of whom are distinguished international experts on organizations.

A second unique feature is that the book takes an interdisciplinary approach to analyzing the current challenges faced by Chinese enterprises. The contributors represent economic, sociological, and psychological perspectives. Through multiple disciplinary lenses, we arrive at a more comprehensive understanding of factors that can contribute to successful transformation of these Chinese firms than would be achieved using a single perspective. The issues studied are at multiple levels, including job stress and turnover studied at the individual level; governance, culture, and leadership studied at the firm level; and organizational or management issues unique to specific industries, such as high technology and telecommunications. In addition to studies conducted using scientific research processes, we also provide further insight into successful leadership approaches taken by Chinese leaders in managing global companies operating in the Chinese context.

In conclusion, the knowledge base on management in the Chinese context is slowly developing, though it is still limited. In this volume, we aim to contribute to the global management literature by providing insight into the nature of firms in the People’s Republic of China in general as well
as insight into factors that contribute to successful evolution and change in the state-owned enterprises specifically.

ACKNOWLEDGEMENTS

The research reported in this book was made possible by a joint Area of Excellence grant on China Business and Management from the Hong Kong University of Science and Technology and The Chinese University of Hong Kong. The grant provided research funding for ten projects and supported a research workshop during which all the contributors of this volume met to discuss their research progress. We appreciate the critical comments by Thomas Lee, Richard Scott, and David Whetten during the research workshop. They pushed and challenged the authors to immerse themselves more deeply into the phenomena in situ. A common question they posed was, “What is the ‘Chinese’ in it?” To them, finding that what is true in the West to be also true in China adds no value to the literature. To these scholars, discovering what is uniquely Chinese is new knowledge. We believe our authors have lived up to their challenge, as is evidenced by the highly contextualized studies reported in this volume. The production of this volume has not been possible without the research assistance of Winee Wu. She carefully made the corrections in the copy-edited chapters and prepared the entire manuscript in camera-ready format. The chapters were initially greatly improved in both content and style by the professional editing of Persephone Doliner and Virginia Unkefer. Lastly, we thank all the contributors to this volume. We hope they are as proud of this book as we are.

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