Submission No: 13787

Symposium Proposal

STRATEGY IN CHINESE FIRMS:

INSTITUTIONAL ANTECEDENTS, PROCESSES AND OUTCOMES

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***All intended participants have agreed to participate in the symposium**
**** Symposium Co-chairperson**

Symposium Proposal submitted to the BPS, IM and OMT divisions for
The AoM 2005 meeting to be held in Honolulu, Hawaii

Submission No. 13787

STRATEGY IN CHINESE FIRMS:

INSTITUTIONAL ANTECEDENTS, PROCESSES AND OUTCOMES

Symposium Abstract

China is poised to play an increasingly important role in the global economy, and Chinese management practices are attracting attention from scholars all over the world. China's ascendance as an economic powerhouse has implications for management scholars of, among other areas, organizational theory, strategic management and international management. No longer simply low-cost manufacturers, China's firms are reaching a point at which they will be equal partners in the management process (e.g., Lonovo's recent purchase of IBM's PC division). Despite China's rapid economic advance, our understanding of Chinese management practices lags behind that of Western firms, as most research historically has been conducted in Western countries. Of particular interest to macro organizational scholars is strategy formulation process and outcomes of Chinese firms. This symposium is designed to further the understanding of Chinese management with particular emphasis on indigenous Chinese firms' strategies and their continuing internationalization. The symposium goes beyond testing whether Western theories apply in the Chinese context; the presentations featured in this symposium are geared toward exploring management practices in the unique cultural and institutional context of China's transition economy. Featuring some of the top scholars in China management research, the symposium will provide a comprehensive and current overview of strategic management research and practices and all of the presentations are derived from current, ongoing research projects. Furthermore, the symposium covers the entire spectrum of strategy in China – from antecedents to formulation and implementation to outcomes. Given the increased attention paid to China by Western firms and researchers, this symposium will be of interest to wide range of attendees to the Academy of Management Annual meeting.

Key words:

International competitiveness: Chinese organizational forms; Strategy formulation

Symposium Proposal

STRATEGY IN CHINESE FIRMS:

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Co-chairpersons: Heli C. Wang (Hong Kong University of Science and Technology)
Michael N. Young (Chinese University of Hong Kong)

Presentations included in the Symposium:

Rethinking Property Rights as a Relational Concept: Explorations in China's Transitional Economy
Xueguang Zhou (Hong Kong University of Science and Technology)

Strategic Planning Among Chinese Firms
Brian K. Boyd (Arizona State University)
Heli C. Wang (Hong Kong University of Science and Technology)
Michael N. Young (Chinese University of Hong Kong)

Private Ownership in Infrastructure Projects in China
Mike W. Peng (The Ohio State University)
Yi Jiang (The Ohio State University)

Strategy in Chinese Firms: Business Groups in China
Robert E. Hoskisson (Arizona State University)
Garry D. Bruton (Texas Christian University)
Daphne Yiu (Chinese University of Hong Kong)

Management Localization in MNC Overseas Subsidiaries
Yan Zhang (Rice University)

Survival and Failure of China's Technology Ventures: Evidence from Zhongguanchung High Technology Science Park
Haiyang Li (Texas A&M University)
Li-An Zhou (Beijing University)

Proposed Format: This will be a "presenter symposium." We request a 120 minute block that will consist of approximately 90 minutes for presentations followed by 30 minutes of audience and participant discussion. The presentations will be ordered such that the first presentations deal with antecedents to strategy, the middle presentations concentrate on content and process of strategy, while the final presentations focus on outcomes of strategies. The formally-assigned discussants have been omitted and the participants will encourage audience participation as suggested in the symposia preparation guidelines.

Statement of interest for:

BPS Division – The BPS Division is interested in the roles and problems of general managers such as strategy formulation, strategic planning and implementation and their outcomes. This symposium falls squarely within the domain of the BPS division; it deals with antecedents to strategy, strategic planning, ownership structure, business groups, MNCs factors of success for international JVs. Furthermore, it is examining each of these within the exciting context of China's transitional economy, thus shedding further light on the question of generalizability of organizational strategies.

IM Division –The IM Division focuses on, among other things, comparative management; the cross-border differential impact of cultural, social, economic, technological, political, and other institutional forces on strategies, organizational forms, and management practices. This symposium will be of great interest to IM Division members as China is a major driving force of the current wave of globalization that is currently sweeping the globe. Many Western firms are interested in expanding business in China and Chinese firms are reaching the stage where they will begin to expand internationally (as attested to by the recent purchase of IBM PC division by Lenovo). In addition, several of the studies involve MNCs and international joint ventures.

OMT Division – The OMT Division examines organizational forms and their resultant competitiveness. The Division has a rich heritage that includes institutional theory, organizational survival (population ecology) and strategic choice. This symposium will be of interest to OMT divisions as all of these studies deal explicitly or implicitly with the organizational form assumed by Chinese firms and the dominant theoretical lens used in the studies presented here is institutional theory. As more attention is given to Chinese management practices and their unique characteristics, there may come to be a "Chinese model" of organization that someday may assume a role of importance equal to the dominant Anglo-American model or the German-Japanese model of organization. The issue of the Chinese organizational form will be central to this symposium.

Symposium Overview Statement

STRATEGY IN CHINESE FIRMS: INSTITUTIONAL ANTECEDENTS, PROCESSES AND OUTCOMES

China is poised to play an increasing role in the global economy and this is increasing the interest of Chinese management practice among practitioners as well as management scholars. In the late 1970's, China embarked on a path of economic transformation that has led to profound changes in its organizations. Based on current trends, China is likely to become the world's largest economy in the foreseeable future (Tsui et al, 2004). China is becoming such a *tour de force* that it is changing the way that organizations are managed all around the world (Lieberthal & Lieberthal, 2003). "What is stunning about China is that for the first time we have a huge, poor country that con compete both with very low wages and in high tech" (Engardio & Roberts, 2004: p. 51). Chinese firms are moving beyond their historical role as low-cost manufacturers to become a full-fledged partner/competitors in the management of resources (consider Lenovo's recent purchase of IBM's PC division).

Yet for all of the phenomenal success stories, many seemingly insurmountable problems and challenges confront Chinese organizations (Nolan, 2001; Steinfeld, 1998). Although it is generally agreed that organization and management in China is very different from that of highly-developed Western economies, where most of the existing theory was produced, much less is known about indigenous China management practices. This situation presents both challenges and opportunities for management scholars. The challenges for management scholars result from the fact that they are operating in an unknown turbulent environment where data collection is often difficult and of questionable reliability. The opportunities exist because China presents a living laboratory of organizational transformation. There is much variety of organizational forms with new forms continuously evolving and old forms dying along with the changing landscape (Tsui et al, 2004). At the forefront of issues to be explored in this context is the nature of strategy in indigenous Chinese firms.

Therefore, this symposium will set the stage for scholars interested in the strategic management, internationalization and organizational forms of indigenous Chinese firms to exchange ideas. As the title of the symposium implies, the symposium is designed to give a comprehensive picture of strategy formulation in Chinese firms from the initial antecedents (institutional conditions) to processes and structures (planning, ownership structure, business groups and localization) and finally outcomes (firm success and survival). The presentation will proceed in from antecedents to formulation and implementation to outcomes as follows:

First, examining the institutional (property rights) antecedents that make China's strategy unique, Xueguang Zhou develops a relational view of property rights in China's traditional economy. Such a view stresses connections, interdependence and ambiguities involved in property rights, in the relationships between organizations and environments, and the adaptive mechanisms underlying the property rights institutions. This novel view moves beyond the view of property rights as a "bundle of rights" to capture the benefits – as well as the costs – of China's ambiguous property rights structures.

Moving from *antecedents* to *processes* of strategy formulation, Brian Boyd, Michael Young and Heli Wang examine how strategic planning takes place among Chinese firms. Framing the paper using the classic "grand strategy" versus "incremental strategy" debate, this paper develops hypotheses concerning the planning processes of Chinese firms, including the antecedents, strategic orientation and use of *guanxi*. The proposed empirical model of the paper also examines the moderating impact of environmental uncertainty, strategic orientation and ownership type. Furthermore, the model proposes that strategic planning by Chinese firms is positively associated with firm performance, particularly in environments where planning is less prevalent.

Similarly, Yi Jang and Mike Peng examine whether there is any difference in terms of ownership structure among various types of private participation in infrastructure projects. Drawing upon the unique institutional legacy of China's transition economy, the study examines the interaction from various paths of privatization on social stability and government control. This leads to the hypothesis that private ownership is likely to be less in SOE divestiture projects than in Greenfield and concession projects in China. The study then presents the results of an empirical study that examined 363 infrastructure projects in China from 1984 to 2003 to find general support for the hypothesis.

In the fourth presentation, Robert Hoskisson, Garry Bruton and Daphne Yiu examine the growth of business groups in economic reform. The focus of this presentation is on expanding the theoretical understanding of the role played by business groups beyond the transaction cost economic perspective. Expansion of the theoretical underpinnings of business groups gives a new perspective on how business groups affect strategic actions and strategic performance.

In another presentation examining the manner in which strategy is best formulated in Chinese firms, Yan Zhang looks at the issue of localization of management resources of multinational firms operating in China. She utilizes an agency theory framework to build a model exploring the antecedents and consequences of effective implementation of management localization. She tests this model using survey data from 157 foreign firms invested in China, finding general support for the idea that headquarters control over the subsidiary, headquarters-subsidiary cooperative relationship, and learning opportunities offered in the subsidiary are positively related to effective management localization practice. She also finds that effective implementation of management localization practice is positively related to subsidiary performance and perceived local employee morale.

Moving from *processes* of strategic management in China to the *outcomes* of Chinese strategies, Haiyang Li and Li-An Zhou examine the factors associated with success or failure of technology ventures. This empirical study uses longitudinal data and to study in-depth how institutional and strategic factors influence the failure rate of technology ventures in China's Zhungguancun High Tech Science park. The authors find that ownership, enterprise affiliation, and R&D strategy all influence the chances of a venture's success.

Taken as a whole, this symposium will provide a comprehensive and up-to-date picture of strategic management of Chinese firms. As the symposium deals specifically with strategy, internationalization and organization theory it should be of great interest to macro organizational scholars the BPS, IM and OMT divisions respectively. Yet beyond that, as it is set within the turbulent, fast growing context of China's transition, it will be of interest to the many other conference attendees that are interested with the management of Chinese organizations.

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RETHINKING PROPERTY RIGHTS AS A RELATIONAL CONCEPT: EXPLORATIONS IN CHINA'S TRANSITIONAL ECONOMY

Xueguang Zhou

HKUST

In my research on interfirm contracts in China in 2002, I interviewed the CEO of a consulting firm. The consulting firm is privately owned by six business partners through share holding, and its business is to provide consulting information to clients regarding real estates, business planning, and marketing research. The firm's business depends heavily on referrals from friends and business partners. The CEO told me the following story. Once an important business partner, who was also a shareholder of the firm, asked his firm to conduct a heavy-duty consulting project and agreed beforehand the amount of payment for this project. After the project was successfully carried out, however, this partner ignored the CEO's repeated, subtle reminders for payment. The CEO remarked: "After several attempts to remind him of the overdue payment, I finally realized that he simply decided not to pay me. I could ask him straightforwardly for the payment, but I did not want to risk our relationship—he has been referring important clients to my company…"

Notice that this business partner is also a partial owner of the consulting firm. In this sense, there is some ambiguity about who has the decision right. Here, one would think that a clear delineation of property rights—buying out the shares from the partner so as to make him a pure client of the firm—would avoid such instances of breach of contract. But obviously, the CEO knows better. Such a clarification means that the partner would no longer refer new business opportunities to the firm. In this episode, ambiguity in property rights has both costs and benefits. The costs involve inefficient allocation of resources and the loss of incentives (on the part of the CEO); the benefits are expected future business opportunities and resource inflows associated with this relationship. In this case, it is clear that the benefits gained from this relationship outweigh the resulting loss of efficiency. One way to interpret this arrangement is that the ownership structure provides an adaptive mechanism in negotiating a stable, long-term relationship with key environments.

Now, let us turn to a broader question: Do property rights matter in organizational behavior and performance, and especially in the large-scale socioeconomic changes underway in

Asian societies? The answer is obviously "Yes." It has long been recognized that there exist distinct forms of organizations, especially in terms of their ownership structures and consequent employment relationships in China, Japan, Korea and Taiwan, and that these different organizational forms have generated different managerial styles, firm behaviors, and competitive advantages. Moreover, a fundamental component of institutional changes in these societies nowadays is changes in property rights. In China's transitional economy, there have emerged a variety of relationships such as business groups, social networks, and hybrid organizational form.

But in what ways do property rights matter? Here scholars differ about the mechanisms underlying the role of property rights. The prevailing view, mainly developed in economics and legal theory, treats property rights as "a bundle of rights," and portrays an image of exclusivity, independence, and clearly delineated boundaries across organizations. On the other hand, Casual observations and many studies in this area portray a very different picture—one in which the boundaries are often ambiguous, blurred, symbolic, and constantly under negotiation.

In particular, a salient phenomenon in China's transitional economy is the stable, long-term relationships between political authorities and firms and between organizations, which involve the intertwining of interests and mutual obligations. Interestingly, such relationships are built on some compromise of the bundle of property rights among the parties involved. For example, the local government is often heavily involved in strategic planning in local firms; in return, it demands a significant proportion of revenues in the form of extra-tax fees, thereby compromising the firms' decision rights or rights to income flows. Similar mutual obligations and constraints are also observed in Japanese and Korean economies, such as the relationships between government and large corporation relations and between large corporations and subcontracting firms. These salient characteristics and these patterns are so systematic, stable and long-lasting that one needs to seek explanations in fundamental institutional bases.

In this paper, I propose a relational concept of property rights to advocate an imagery of property rights as a "bundle of relationships," and reinterpret these phenomena and their implications for the dynamics in Asian economies. In contrast to the "bundle of rights" argument, the proposed model stresses connections, interdependence, and ambiguities involved in property rights, in the relationships between organizations and environments, and the adaptive mechanisms underlying the property rights institution. The premise of this line of argument is that, in China's transitional economy, like in many other circumstances of incomplete market competition, access to business opportunities and the related capacities to extract resources are far more important for firm survival and success than the gains from minimizing the transaction costs through delineation of property rights incurred in this process. The relational concept of property rights sheds lights on the effectiveness of resource mobilization and resource transfers across different property rights regimes, through public-private relations and government-firm relations. In so doing, I advocate that we understand the property rights phenomena from a *behavioral* point of view. That is, we move beyond the appearance of normative claims and understand how property rights are in operation in the real world. I illustrate these ideas in the context of China's transitional economy, drawing on empirical evidence reported in the media and from data on interfirm contractual relationships collected in two Chinese cities, Beijing and Guangzhou, in 2000.

PROPERTY RIGHTS AS A RELATIONAL CONCEPT

I propose to interpret property rights as a relational concept in that it specifies "a bundle of relationships" linking organizations to their environments. In contrast to the "bundle of rights" image, property rights as a relational concept portray an image of connections, inclusiveness, and interdependence between organizations and their environments. This configuration certainly drew on the Chinese institutions, a salient characteristic of which is the central role of "connections." Fei Xiaotong's "chaxu geju" concept captured the essence of these ties. Moreover, these are not merely instrumental ties that vary with transactions, but are an integral part of permanent identity that defines "sameness." Recent research by Chinese scholars has identified several bases of such institutionally-based ties through blood relations, marriage, relatives, and the diffusion of kinship institutions. The emerging form of property rights, I submit, is also founded on the analogy of these ties.

The core ideas in the proposed model can be summarized as follows: *Property rights are often structured to manage relationships between organizations and their environments. That is, in those areas where we observe the absence of clearly delineated property rights, where property rights are truncated or compromised, we are likely to observe stable, long-term relationships between an organization and its key stakeholders.* In this proposition, the lack of a clear delineation of property rights is associated with organizational adaptation to its environment. In other words, in those instances of ambiguous property rights, the "bundle of rights" arguments treat them problematic and inefficient, whereas the logic proposed here invites us to look into the adaptive consequences they may entail. In this light, property rights as an adaptive mechanism are shaped by and evolve with organizational environments.

Obviously, the claims made above are not as sweeping as they may sound, and they must be carefully qualified, conditions spelled out, and the underlying logic clarified. This is the central task for the rest of the paper. In the rest of the paper, I develop three theoretical propositions and assess their implications for understanding transitional economies in China: (1) property rights provide identity and the basis for credible commitment; (2) property rights channel firms into distinct institutional environments; (3) property rights impose a coherent institutional logic among the multiplicity of organization-environment relationships.

Strategic Planning among Chinese Firms

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China is now one of the major forces in the world economy, and is poised to play an increasingly important role in the foreseeable future. Yet by most accounts, the strategic management processes and practices of Chinese firms lag behind those of other major economies. Furthermore, the existing research on strategy formulation in China often is merely descriptive in nature. To our knowledge, there is no empirical study that specifically examines strategic planning processes of Chinese firms along with their antecedents, outcomes and moderators. We aim to fill a gap in the strategic management literature by developing a model of strategic planning of Chinese firms. This model will provide testable hypotheses for important, and yet unanswered questions that are essential in understanding strategic planning of Chinese firms.

Chinese Strategic Planning: Grand Strategy versus Incremental Strategic Planning

There are fundamentally two schools of thought regarding strategic planning processes: grand strategy versus incremental strategy. Grand strategy, or the "design school" is characterized as a controlled, conscious process of thought centralized around the chief executive. It is aimed at formulating strategies to maximize strategic fit. Incremental strategy, or "emergent strategy," stresses that strategy formulation is a decentralized, iterative process that relies on trial and experience (c.f., Mintzberg, 1990). Much of extant strategy research is rooted in the grand strategy assumption, consistent with perceptions of Western managers.

It is not clear whether strategic planning in Chinese firms is more in line with the grand strategy model or the incremental strategy model. Some researchers report that Chinese strategy is a highly centralized, formal process (e.g., Ahlstrom et al 2004; Backman, 1999; others) which is more akin to the *grand strategy* conceptualization of planning. Alternatively, Haley et al (1998: p. 107) report that the "informational void" means that Chinese managers manage with their "hearts or guts" and eschew formal planning, which would put them more in line with the *incremental* conceptualization of strategic planning.

We will evaluate the applicability of these two perspectives by testing whether strategic planning among Chinese firms is an incremental process or alternatively, a formalized process. This is captured by the following hypotheses:

H0: Chinese firms are likely to develop strategy via a "grand strategy" process.

H1: Chinese firms are likely to be a grand strategy via and "incremental" process.

H2: Chinese firms differ from their Western counterparts in terms of strategy formulation.

<u>The Antecedents of Strategic Planning Among Chinese Firms</u>

What factors are likely to lead to increased planning activity? Building upon Boyd and Reuning-Elliott (1998), and Park and Luo (2001), we propose that ownership type will affect strategic planning activity through several mediators, including perceived environmental uncertainty, strategic orientation, and guanxi (see Figure 1). Previous studies have conceptualized the effect of ownership types on these mediating factors (e.g., Li & Atuahene-Gima, 2002; Tan, 2001), but with inconsistent results.

Furthermore, we also address the question of whether perceived environmental uncertainty (PEU) covaries with strategic orientation, or if there is a causal relationship. Although Lukas et al (2001), Tan and Litschert (1994), and Luo and Park (2001) treat this as a causal relationship, by including the role of ownership in our model, we can determine if these findings are accurate, or merely the result of an omitted variable problem. Therefore, our model of antecedents of strategic planning among Chinese firms suggests the following:

H3: Perceived environmental uncertainty will be positively/negatively related to strategic planning activities.

H4: Strategic orientation will be positively/negatively related to strategic planning activities.

H5: Use of guanxi will be negatively associated with strategic planning activities.

H6-8: Ownership type will affect perceived environmental uncertainty, strategic orientation, and the use of guanxi.

<u>The Consequences of Strategic Planning (Strategic Planning and Financial Performance)</u>

Powell (1992) describes two types of industry settings: 'planning equilibrium' settings, where strategic planning is widely diffused, and 'planning disequilibrium', where strategic planning is rare. Powell argues that in equilibrium industries planning is a necessary but insufficient condition for firm performance. In these settings, we would not expect a significant correlation between planning and performance. However, in disequilibrium industries, planning would be expected to positively affect firm performance. Powell finds support for this hypothesis through comparison of two US-based industry groups. We expect to find that strategic planning is relatively scarce among Chinese firms. Thus strategic planning may provide a distinctive competence.

Conversely, we see a diffusion of Western-style management practices, such as: the use of expatriate managers; growth in MBA enrollment; foreign-trained managers, etc. Thus we expect that (a) some Chinese firms have adopted western-style strategic planning, and (b) that these firms are "early adopters" of such practices where we expect a first-mover advantage. Stated formally:

H9: Strategic planning by Chinese firms will be positively associated with firm performance.

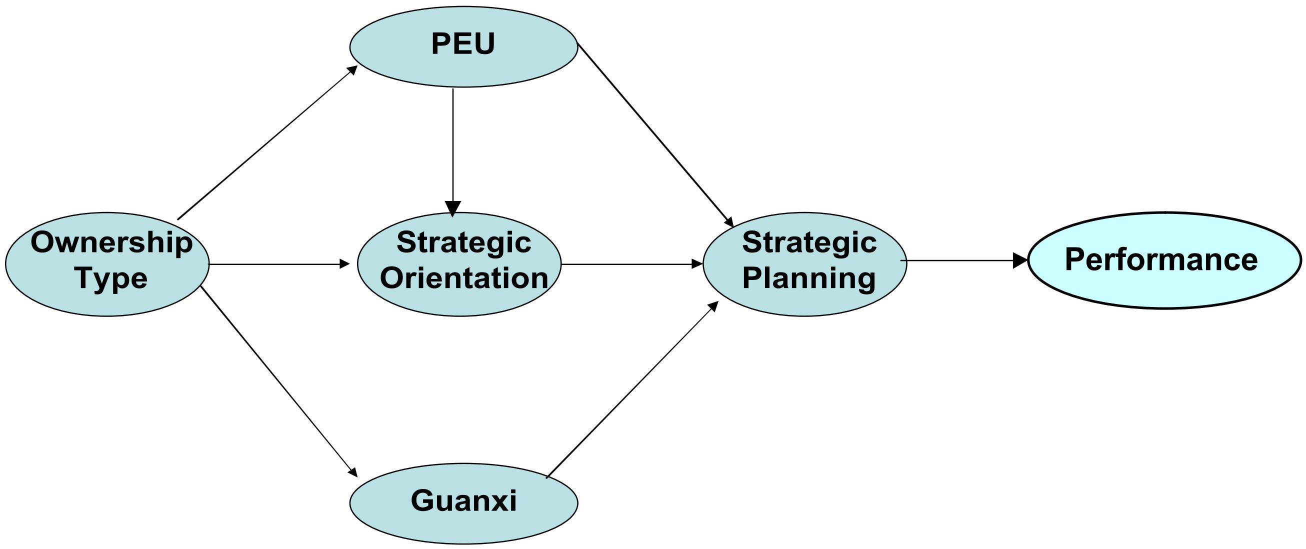
The Moderating Role of Ownership Structure

Firms with different ownership types are expected to adopt strategic planning for different reasons. Specifically, private firms will adopt planning because they view it to be a useful tool. In contrast, managers of SOE's in transition economies often have a limited understanding of the workings of market-based economies, and limited access to persons with such skills (Peng & Heath, 1996). Consequently, we propose that SOEs that do adopt planning practices do so simply to emulate their private counterparts. Since their reason for adoption is isomorphism, we would not expect SOEs to reap the full benefit of such practices.

H10: The planning-performance relationship will be stronger for privately-owned versus state-owned Chinese firms.

The above highlighted hypotheses can be illustrated in the following figure.

Figure 1: The Model



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Private Ownership in Infrastructure Projects in China

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By the 1980s, most socialist governments started to loosen restrictions on the private sector. After a period of slow but steady growth in the 1980s, private participation blossomed in the 1990s throughout emerging economies. Pace of privatization may differ according to the social, cultural, and institutional background of the country effecting the change. The question of how to implement privatization involves far-reaching implications and should be approached differently depending upon the country. Developed countries that are not as concerned with the fundamental overhaul of their economy may focus only on the privatization of a specific industry; they may search for the Pareto optimal level of privatization or for the proper legal methodology of selling public enterprises to the private sector; former centrally-planned economies and developing countries are more likely to focus on the problems of creating an environment conducive to privatization, and formulating an appropriate pace of the change (Frankel, 1995). This paper investigates institutional impact on participation of the private sector in infrastructure in China, whose economies were until recently centrally-planned.

We study infrastructure projects because large state owned enterprises (SOEs) are relevant to a central difficulty of transitional economies: how to deal with the giant firms that constitute a principal legacy of the centrally planned economies? Although there is no open privatization in China, there is substantial "creeping" privatization with lots of anecdotal evidence. However, there is no systematic study on the scale and scope of private participation, especially in the economically critical and politically sensitive infrastructure sector. This study, therefore, is one of the theoretically informed and empirically rigorous studies that probe into this area.

Focusing on the decision-making process of reforming those large SOEs, we answer a key question: is there any difference in terms of ownership structure among various types of private participations in infrastructure projects?

Maintaining growth in the private sector in emerging economies requires continuing development of the ideological, policy, regulatory and institutional framework within which it operates. North's (1990) analysis of institutions points to the relevance of historical factors that inhibit a country from adopting institutional solutions which conventional economic theory would regard as optimal.

Assuming that privatization optimizes welfare, the government must establish an environment conducive to privatization. Such an environment requires, first and foremost, social stability. One way to understand business strategies in emerging markets is to analyze the effects of institutions in reducing transaction costs (Hoskisson, Eden, & Wright, 2000). Institutions reduce transaction costs by reducing uncertainty and establishing a stable structure to facilitate interactions. If the stability of policy and regulation is jeopardized, the economy will suffer from high transaction costs due to increased uncertainty. Mass privatization puts political stability at risk because of lack of regulations governing transactions and lack of effective enforcement of the “rule of law”. The shock-therapy advocates and the Washington Consensus called for all transition economies to follow the model of immediate privatization. However, countries such as Russia suffered from the shock-therapy leaving a vacuum between one system and another after mass privatization program. In large SOEs reform in china, the type of private participation with less threat to social stability is likely to be preferred.

North (1990) also argues that informal constraints from adopting institutional solutions regarded optimal by conventional economic theory come from the normative and cognitive transmission of values, underpinned by ideological reinforcements. Governments generally prefer to retain ownership and control over critical infrastructure, and certain country environments (least developed) and sectors (immobile infrastructure) are particularly subject to these tendencies (Doz & Prahaland, 1980; Fagre & Wells, 1982; Vernon, 1971). Moreover, government bureaus in China have long been accustomed to meddling in the affairs of enterprises, and government officials derive considerable status and prestige from this power (Chow, 1997), which requires retaining more control in large SOEs.

In China, between pure state ownership and pure private ownership, there is a great diversity of mixed ownership (Peng, Tan, & Tong, 2004). In infrastructure projects, there are three primary forms of private participation: (1) divestiture, (2) concession, and (3) greenfield[1]. A divestiture type of private participation transfers ownership of the assets of state owned enterprise (SOE) to the private sector, which gives the private sector full responsibility for operations, maintenance, and investment. A divestiture is an immediate way of introducing private participation. Compared with divestiture, a concession assigns the government a primary task: to ensure that the utility's assets—which the government continues to own—are used well and returned in good condition at the end of the concession. A greenfield type of private participation also differs from divestiture in that it involves closer monitoring from the government since the facility will be returned to the government at the end of the concession period[2]. Thus, in Contrast to divestiture, the concession and greenfield types of private participation are better at keeping social stability under government's control. In structuring the process of private participation in previously state-controlled large SOEs, the government faces a challenging range of options as they seek to balance political, social, and economic goals in determining the extent and pace of reform (Doh, 2000). In order to keep social stability and to keep the state power, the shock-therapy type of divestiture, which transfers control from the government to the private investor, is less likely to have as much private ownership as other types of private participation, in which the government still keeps control power.

Resource-based perspective also predicts less private ownership in divestiture projects. Resources must demonstrate a specific set of characteristics in order to generate above-normal returns (Barney, 1991; Peteraf,

[1] A concession is when a private entity takes over the management of a state-owned enterprise for a given period. At the end of the concession period, ownership of the facility will be transferred to the government. In a greenfield, a private entity or a public-private joint venture builds and operates a new facility for the period specified in the project contract. The facility may return to the public sector at the end of the concession period.

[2] Although in one type of greenfield private participation--BOO (Build, operate and own), private sector receives full ownership of the facility at the end of the concession period, government attains more control during the project because a private sponsor builds a new facility, transfers ownership to the government, and then leases the facility from the government, compared with in divestiture private participation, part of the equity in the state-owned company is transferred directly to private entities.

1993); they must be valuable, rare, inimitable and nonsubstitutable. The government decides to divest large SOE assets since those are less valuable resources that create serious financial and managerial problems for municipalities. Since both governments and investors seek a strategic fit through integration of resources among investor firms, host governments, and the SOE (Uhlenbruck, 1998), private investors recognize that the assets in divestiture projects are of less value than that in other types of private projects, thus are likely to invest less in those assets.

Hypothesis : Private ownership is likely to be less in divestiture projects than in greenfield and concession projects in China.

We acquired a data set of 363 projects in China drawn from the World Bank's Private Participation in Infrastructure (PPI) Database. These projects were announced during the period 1984-2003. After exculding missing data, We have 319 projects left with 70 divestiture projects, 89 concession projects, and 160 greenfield projects[3].

Multiple regression tests, using the ordinary least squares (OLS) technique, were employed to test the relationship between private ownership and types of private participation. Dependent variable, private ownership is measured by the percentage of the project company that is owned by private sponsors. Three types of private participation are measured as 3 dummy variables, divestiture (1 for divestiture, 0 for the rest), concession (1 for concession, 0 for the rest), and greenfield (1 for Greenfield, 0 for the rest). We control for the length of the projects until end of 2003 measured by the months elapsed since the project was announced. We also control for primary sectors of infrastructure of the projects, namely, transport, energy, telecom, and water and sewerage sectors. White's robust test is used to correct heteroskedasticity.

The hypothesis is supported. Private ownership in divestiture projects is 21% less than that in concession projects and 23% less than that in greenfield projects. Our study supports that for private participation in

[3] These three kinds of projects are mutually exclusive. only one project has private participation type as management and lease contract and is excluded.

infrastructure in China, divestiture projects have less private ownership than other types of projects in which the government retains more control.

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Strategy in Chinese Firms: Business Groups in China

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The establishment of business groups has been a key aspect of the Economic Reform in China that has been generating this nation's noteworthy economic growth. Over the last 15 years business groups in China have grown from being non-existent to a point where they contribute approximately 60 percent of the nation's industrial output (China Economic Yearbook 2000; China Statistical Yearbook 2000). Business groups serve as the primary economic engine for the development of the national and local economies in China (Keister, 1998; Nolan, 2001).

The reason that business groups have been used by the government as a tool of economic reform is that China has sought to move from a hierarchical system that typifies central planning to a market-based system (Child, 1993). The Chinese government knew that without making systematic choices in this transition it could end up with more potential chaos as reflected in the Russian transition. Therefore, the nation needed an intermediate (versus revolutionary) approach to institution change to facilitate enterprise reform and, thereby, the economic transition. The solution was the encouragement of business group formation that would facilitate the movement towards the market based system.

Moreover, business groups were believed to be able to accomplish specific goals by Chinese officials: cost efficiency through economies of scale, better coordination of management of individual enterprises, decrease in the reliance of firms on the state to cover operating deficits, improved firm performance, increased total output, improved relations among firms and scientific research institution, improved research and development in order to decrease reliance on foreign technology, enhanced international competitiveness, and the protection of firms from competition (Li, 1995).

Consistent with their use as transitional institutions, today business groups in China commonly include both publicly traded and government owned firms in their portfolio of affiliated firms. Illustrative of the complexity of business groups in China is Desay, a business group founded in 1983 that includes 25 affiliated firms. Some of the affiliated firms have publicly traded stock and some do not. These various business units compete in 10 industries including electronics, telephone equipment, audio and visual products, construction materials, and real estate and employ approximately 11,000 employees. Some of these business units were assigned to the business group by the government while the parent firm voluntarily invested in, and took control of, other member firms within the group. As officially defined by the Chinese government, a business group consists of legally independent entities that are partly or wholly owned by a parent firm and registered as firms affiliated with that parent firm.

Theoretical Foundations for Business Groups

Despite their dominance in the Chinese economy to date the understanding of such groups and their impact has remains constrained. In part this is because the theoretical underpinning of the prior investigations has been limited. Prior research on groups in China, and groups in other emerging markets, has typically focused on institutional economics, in particular transaction cost economics, as the key theoretical perspective. From an economics perspective, business groups substitute for imperfect market institutions in the emerging economies (Caves & Uekusa, 1976; Chang & Choi, 1988; Khanna & Palepu, 1997, 2000; Leff, 1978). Such a theoretical underpinning largely assumes that there is a uniform answer on strategic choices made by business groups as they seek to lower transaction costs. Other theoretical lenses have begun to emerge in the investigation of business groups in China. These lenses include: economic sociology, resource based view, and a political or political economy perspective. These additional theoretical lenses should lead to a richer understanding of business groups in China and the specific strategic actions undertaken by business groups and their affiliated firms. The presenters will provide a brief overview of each of these theoretical lenses which enhances our understanding of the functionality of business groups.

Strategic Performance

Perhaps due to the under-development of the theoretical foundations for business groups, to date the empirical findings on the relationship between business group affiliation and firm performance has remained mixed. Using panel data from 1988 to 1990 on China’s business groups, Keister (1988) found that the presence and predominance of interlocking directorates and finance companies in business groups improved the financial performance and productivity of member firms, and more centralized groups performed better than others. However, Khanna and Yafeh (1999) found a negative relationship between group membership and firm performance. In half of the ten emerging economies in their sample (e.g., Brazil, India, Korea, Taiwan, Thailand), the inter-temporal variance of firm profitability was lower for group affiliates than non-group affiliates. These empirical results suggest that there may be a cost to affiliating with business groups. The exact impact of the nature of business groups on performance therefore needs to be examined more fully. The nature of this future examination will be discussed for the Chinese context in the symposium.

Strategic Actions

The limited understanding of how business groups affect performance of affiliated firms is even greater as the understanding of the strategic actions is examined. For example, there has only initially been an examination of how Chinese business groups cope with the conflicting demands to balance pressures from the market to compete internationally with that of the government to maximize employment (Hoskisson, Yiu, Bruton, & White, 2004). Technologically advanced foreign and domestic competitors encourage the limitation of excess employees and encourage expenditures on research and development to facilitate competitiveness. However, there is political pressure from the government to maintain high employment levels so as to avoid social unrest (Scott, 2002). The nature of strategic choices the group must make and how researchers should approach the investigation of such topics will be discussed in the symposium.

As business groups and affiliate firms move forward, many are looking to compete in international markets. Prior research on international diversification has focused primarily on multinational enterprises (MNEs) from developed economies. Hoskisson, Kim, White, & Tihanyi (2004) suggest that the rationales for international diversification from emerging economies from China differ from those of developed economies. Using the resource-based view (RBV) of the firm and organizational learning theory, they suggest that the international diversification motives of business groups from emerging economies vary by host country context. Business groups from emerging economies are more likely to enter developed economies rather than other emerging economies primarily for exploring new resources and capabilities and enter other emerging economies rather than developed economies to exploit existing group resources and capabilities. We will also discuss how these motives influence business group strategic actions in the symposium.

Summary

The researchers will therefore present a brief overview of the role of business groups in research on China. They will then principally focus on new theoretical underpinnings that are shaping our understanding of business groups. The presenters will then discuss our current understanding of the impact of business groups on performance and the strategic actions of the groups and their affiliate firms plus the needs for future research in these domains.

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MANAGEMENT LOCALIZATION IN MNC OVERSEAS SUBSIDIARIES

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A popular practice for multinational corporations (MNCs) from developed economies to control and manage their overseas subsidiaries in emerging economies such as China and India is to send expatriate managers to these subsidiaries. Expatriate managers can help establish efficient operations and transfer technology and management know-how to the subsidiaries. Recently, however, scholars have noted that there are many problems associated with maintaining expatriate managers in overseas subsidiaries. For example, maintaining expatriate managers may limit development opportunities for local managers and impose tremendous financial costs on the subsidiaries (Chen, Choi and Chi, 2002; Prahalad and Lieberthal, 1998). Also cultural differences between expatriate managers and local managers may hamper management effectiveness. To alleviate these problems, it has been suggested that management localization (i.e., replacing expatriate managers at senior management level with local managers who are host country nationals) represents an important practice for MNCs to enhance their expansion and competitive advantages in these emerging economies (Heim, 1997; Prahalad and Lieberthal, 1998; Wong and Law, 1999). Management localization can presumably reduces the expenses associated with maintaining the expatriates and also local managers have a better appreciation of cultural nuances and local operation environments than the expatriates do.

Despite its importance, the extant research on management localization is very descriptive and sporadic. Although several studies have identified the potential factors affecting management localization based on case studies and anecdotal evidence (e.g., Harvey, 1983; Kobrin, 1988; Wong and Law, 1999), systematic empirical research on management localization is lacking. To contribute to this important area, in this study we draw on agency theory to investigate the antecedents and consequences of effective implementation of management localization practice. We define *effective implementation of management localization practice* as the extent to which an MNC's implementation of management localization practice in terms of replacing expatriate managers with local managers at the senior management level in its overseas subsidiaries is effective, satisfactory, and timely. It should be noted that effective implementation of management localization practice cannot be simply reflected by the number or percentage of local managers at the senior management level of a subsidiary. For example, some local managers may not be qualified for the senior management positions. Thus a large number or percentage of local managers at the senior management level in the subsidiary does not mean that the implementation of management localization practice is effective, satisfactory, and timely.

Prior research has characterized the headquarters-overseas subsidiary relationship as a principal-agent relationship, in which the headquarters delegates tasks and responsibilities to subsidiary management (e.g., Nohria and Ghoshal, 1994; Roth and O'Donnell, 1996). Following this line of research, we draw on agency theory (Eisenhardt, 1989; Jensen and Meckling, 1976) and argue that effective implementation of management localization practice can be prohibited by two agency problems: The first is the problem of local management's opportunism. Because the MNC headquarters and local management of the overseas subsidiary may have divergent interests, local management may behave opportunistically and pursue their own interests rather than those of the MNCs. The second is the problem of local management's incompetence. To effectively implement management localization practice, expatriate managers in the subsidiaries have to be replaced by *competent* and *qualified* local managers (Gamble, 2000). However, recruiting competent and qualified local managers is not easy, particularly in emerging economies where the supply of competent and qualified managers is typically low. Indeed many MNCs face tremendous challenges in recruiting and retaining local managers to run their operations in emerging economies (Wong and Law, 1999).

In this study, we argue that to the extent that these two agency problems can be addressed, effective implementation of management localization practice will be achieved. Our standing on these two agency problems in the MNC headquarters-subsidiary relationship is consistent with Hendry's (2002) recent extension of agency theory. He argued that "honest" but "incompetent" agents also harm the principal's interests. It appears that agency problems may not only result from the agents' opportunistic behavior but also from their lack of competences to perform the tasks delegated by the principal. Failing to explicitly address the agency problems from both sides will leave the examination of effective implementation of management localization practice theoretically incomplete.

With survey data from 157 foreign invested firms in China, we find that headquarters control over the subsidiary, headquarters-subsidiary cooperative relationship, and learning opportunities offered in the subsidiary are positively related to effective implementation of management localization practice. In addition, effective implementation of management localization practice is positively related to subsidiary performance and perceived local employee morale. These results highlight the importance of effective implementation of management localization in MNC overseas subsidiaries.

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SURVIVAL AND FAILURE OF CHINA'S TECHNOLOGY VENTURES: EVIDENCE FROM ZHONGGUANCUN HIGH TECHNOLOGY SCIENCE PARK

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Recently, scholars are increasingly interested in technology ventures in transition economies such as China and Russia. Economic transition from a centrally planned mode to a market mode in these countries has created new market opportunities and precipitated the flourishing of entrepreneurial activities. In China, for example, over 20,000 technology ventures have emerged in over 100 national and regional technology developmental zones from 1988 to 2000. These ventures have been playing a significant role in developing and commercializing new technologies and products, and creating new employment opportunities.

However, it has been reported that technology ventures in China have a high failure rate. Only a small percent of them can survive five years or longer. Several factors may contribute to the high failure rate of China's technology ventures, for example, lack of technology and managerial resources, lack of well-developed financial market (e.g., venture capitalists), and lack of well-established institutional framework. Given the importance of technology ventures to

China's economic and social development and their high failure rate, it is theoretically and practically important to investigate what factors may influence these ventures' failure/survival.

In this project, we examine this question using longitudinal data on the technology ventures in China's Zhongguancun High Technology Science Park (China's Silicon Valley) from 1995 to 2003. In general, we find that both institutional and strategic factors influence the failure rate of these technology ventures. For example, we find that ownership of these ventures matters. Domestic-private-owned ventures tend to have a higher failure rate than both state-owned and foreign-invested ventures. We also find that ventures that are affiliated to an enterprise group tend to have a lower failure rate than those that are not affiliated to an enterprise group.

In addition, we find that R&D strategy of these ventures can reduce their failure rate. Interestingly, R&D strategy can further mitigate the effects of ownership and group affiliation on these ventures' failure rate. Specifically, ownership and group affiliation have a weaker effect on the failure rate as the ventures' R&D intensity increases. These findings can help us better understand how institutional and market power can jointly influence the failure/survival of technology ventures in China's transition economy.