Book Review


There is little doubt that the People’s Republic of China (PRC) is an economic powerhouse in the making. In the past 20 years, its GDP has increased more than tenfold and annual economic growth now averages 8 percent. As a result, in recent years, there has been an upsurge of books and articles on the topic of management in China. Despite these efforts, more research is necessary as theoretical understanding of managing in China is limited. Part of this deficiency is due to the lack of data on this major developing country. Another equally important reason is the possibility that many of its distinctive characteristics may not be adequately explained by existing management theories. Anne Tsui and Chung-Ming Lau, in this edited volume, address these two issues. First, the articles provide indigenous research in China—the papers are co-authored by at least one local researcher and thus provide insights that are otherwise difficult to obtain. Second, the articles are drawn from various perspectives—economic, sociological, psychological—providing a more holistic view of the phenomenon under investigation.

The volume has four sections. The first section gives an overview of research on China, an overview of the articles in the volume and some corroboration of Chinese research with Western theories and findings. The second and third sections contain articles from both macro and micro perspectives (7 from each perspective). The final section includes some conversations with managers, providing the executive perspective to management in China.

The first section contains four articles that provide overviews of management in China. In the opening chapter, Anne Tsui and Chung-Ming Lau highlight current issues in the management of enterprises in China. These include state-owned enterprise (SOE) reform, management of reformed SOEs, firms’ reactions and adaptation to reforms, and the internal management system of Chinese firms in a globalized context. They then review research done on China and call for indigenous research in China in order to contribute to global knowledge about managing in this huge nation. In the second article, Dave Whetten provides an overview that links the 7 macro articles together. His objective is to accentuate the implications and applications of these studies by embedding them in broader cross-context research. This is followed by Thomas Lee’s article that reconciles the 7 micro articles with existing research done in the Chinese context. Finally, Richard Scott applies institutional theory to explain changes at different institutional levels in China, focusing on the societal, SOEs and individual organization levels. He concludes that Western models of organizing must be adapted in order to fit the distinctive institutional characteristics of China.

The second section contains articles from the micro perspective. David Li and Changqi Wu, using a survey of 680 SOEs from 39 industries, find that the positive impact of
diversifying ownership on SOE performance is much stronger than the impact of improved
government management (in terms of increased managerial autonomy and profit incentive)
on SOE performance. These results appear to support the government’s policy of privatisation.
Jia He and Lan Lu’s case study involves a government financing and investment vehicle
company—a ‘constituted hybrid’ caught between the government and business. The case
shows how government involvement in business distorts the credibility of a company and
misleads the market at the same time.

The next two articles are based on industry case studies. First, Steven White and Xielin Liu
look at the overall innovation network structure in China’s pharmaceutical industry. They
observe the changing structure of cross-functional and intra-functional networks in response
to a new set of incentives and regulating policies that reforms have introduced—the major
change being the evolution of the system from a centrally coordinated to a self-organizing
structure. In the second industry case study, Yan Xu and Haiyang Li evaluate how China
Telecoms adapted to environmental shifts as the Chinese telecoms industry shifted from a
monopoly to a duopoly through to a liberalized market. The authors investigate the impact
of institutional, market and firm factors on the firm’s ability to adapt and react.

In the only article dealing with knowledge management, Chung-Ming Lau et al. in-
vestigate the knowledge acquisition, dissemination and commercialization processes of
high-tech firms. Based on six sample firms from the electronics, chemical and communica-
tions industries, they find that SOE-based firms tend to rely on their parents for technology
development initially. Institutional support and social capital are especially influential in
knowledge acquisition. Over time, while institutional support is reduced, social capital
continues to influence knowledge dissemination and commercialization. They also find that
post-reform Chinese enterprises appear to be better at acquiring knowledge externally than
at disseminating knowledge internally—their social networks produce more knowledge
than their absorptive capacity can effectively assimilate.

Dennis Fan, Chung-Ming Lau and Shukun Wu then empirically examine the effectiveness
of 3 elements of corporate governance (i.e. ownership structure, board structure, and com-
pensation) of a sample of 496 listed Chinese firms. The authors identify unique features of
the Chinese business context that require modifications of standard “Western” predictions. They
find that ownership concentration and percentage of employees’ shareholding have positive impacts on firm performance, but the percentage of major officers’ shareholding,
the ratio of insider directors and managerial compensation, are not related to firm perfor-
ance. Overall, there is only weak evidence supporting the effectiveness of Chinese firms’
internal governance mechanisms.

In the last article of the section, Marshall Meyer et al. argue that China has undergone
decentralized enterprise reform. This is in contrast to the more commonly observed reforms
such as the shock therapy and incrementalism. Using four cases of manufacturers with
different ownership structures, the authors show how decentralized enterprise reform leads
to variation in state ownership structure and capabilities, and increases the likelihood that
competent firms will emerge.

Section 3 of this volume deals with the micro perspective of managing in China. In the
first article, Yanjie Bian surveys 188 firms and finds that these firms vary widely in their
level of social capital, which they describe as scarce resources secured through CEO’s