

Developing theory from strategic management research in China

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Abstract What are the main approaches to theory development based on strategic management research in China? What are some of the recent efforts in developing theory in this area? What is our recommended approach? To address these questions, this article outlines the three approaches to theory development in China research, articulates the Chinese context within the global economy, and highlights two streams of recent work as examples of following the recommended, integrative approach to theory development.

Keywords Theory development · Strategic management research · China

The volume of strategic management research on Chinese (and Asian) firms is not trivial now (Bruton & Lau, 2008; Lau, 2007; Xu & Zhou, 2004; Wright, Filatotchev, Hoskisson, & Peng, 2005).¹ In their review of Asia management research during 1997–2006, Pleggenkuhle-Miles, Aroul, Sun, and Su (2007: 478) find that China is the most studied Asian country, commanding approximately 58% of the journal space in terms of the number of articles in the *Asia Pacific Journal of Management*.

¹Bruton and Lau (2008) report that in ten leading management journals (not including *APJM*) during 1996–2005, 305 articles (6.3% of a total of 4,844 articles) addressed Asia management research.

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Quer, Claver, and Rienda (2007: 361) report that in 12 leading management journals during 2000–2005, empirical research on China represents 6% of the total global output (180 papers out of a total of 2847 papers).²

A fundamental problem confronting all strategic management researchers interested in China—those in China and outside China—is how to develop theory from such research (Peng, 2005; Wright et al., 2005). Commenting on Asia management research (which certainly includes China research), Lau (2002: 174) argues that “the work done so far [in theory development] is inadequate” (White [2002] and Bruton & Lau [2008] make the same point). We agree with this assessment. However, being inadequate does not mean nothing has been done. Therefore, in this article, we ask: What are the main approaches to theory development based on strategic management research³ in China? What are some of the recent efforts in developing theory in this area? What is our recommended approach?

Three approaches to theory development in China research

The aim of management research is “to speculate, discover, and document, as well as to provisionally order, explain, and predict (presumably) observable social processes and structures that characterize behavior in and of organizations” (Van Maanen, Sorensen, & Mitchell, 2007: 1145). The primary vehicle to accomplish these goals is theory. In strategic management research focusing on China, there are three approaches to theory development.

First, some local scholars, those who are not trained in the West and who do not believe in the validity of Western views on theory development, believe that it is necessary to develop China-specific theories based on the unique Chinese traditions and realities. They tend to dive deep into Chinese culture and classics (such as *Sun Tzu*), cite little (or no) research in English, and publish in Chinese language journals. It is possible that highly unique, indigenous theories can be developed. However, this approach suffers from three problems: (1) It lacks sufficient theoretical background. For example, *Sun Tzu* was written 2,500 years ago by a practitioner interested in offering military officers *practical* guidance.⁴ Although *Sun Tzu* may still have some relevance to some management practice, its potential as a well-spring for management *theory* today is probably very limited. In terms of the Chinese culture that is noted for its complexity and ambiguity, different people may have different interpretations. Further, culture’s impact on strategy is being debated. Although Hofstede (2007: 411) maintains that crucial elements of management

² Although some of the 180 empirical papers reviewed by Quer et al. (2007) deal with organizational behavior and human resources, five of the top six categories focus on strategic management topics (Quer et al., 2007: 376–378).

³ We use the term “strategic management research” broadly. A more accurate but longer label would be “strategy, organization, and international business research.” Given the obvious need for compositional simplicity, in this article, we follow Peng (2005: 124) to use the “strategic management research” label.

⁴ Some of this guidance certainly is still useful for today’s military officers, as *Sun Tzu* is a required reading for officer cadets in Chinese and numerous other military academies (such as West Point).

process “differ from one country to another as a function of the local culture,” Singh (2007) argues that culture may have very limited relevance to strategy. (2) Publications in Chinese are not likely to be shared, critiqued, tested, and accepted by non-Chinese-speaking colleagues around the world.⁵ (3) Such work tends to be a guess, conjecture, speculation, and supposition, all of which are legitimate elements of theory building (Weick, 1995). However, because there is often a lack of support based on scientific methodology, such theory is difficult to be developed into a proposition, hypothesis, conception, or model—more sophisticated and more formal aspects of theory building—that can be subject to empirical testing (Van Maanen et al., 2007; Xu & Zhou, 2004).

Second, many scholars who are returnees, those trained in the West and housed in Chinese business schools, prefer to investigate the validity of mainstream Western theories in China and to develop theories based on the anomalies discovered. The advantages are obvious: (1) This approach broadens the range of mainstream Western theories. (2) Such research enhances our understanding of Chinese realities viewed from the lens of mainstream Western theories. (3) Papers following this approach, typically written in English, are more likely to be published, read, critiqued, tested, and eventually accepted by non-Chinese-speaking colleagues (Xu, 2008). However, a major drawback is that mainstream Western theories are often developed out of assumption about realities that operate quite differently from China. Moreover, underneath the skin of many so-called “Western” theories we typically discover US-based theories developed by US scholars drawing on the American experience, which is highly unique even among Western countries (Meyer, 2006). For example, a majority of US firms are private and the United States has very few state-owned enterprises (SOEs). Thus, SOEs are naturally outside the radar screen of US theorists (Peng, 2005). As a result, applying such theories to China, where SOEs have a commanding (although gradually reduced) role in the economy, may be problematic. In the worst case, this may result in a “forced fit” between Western theories and Chinese realities (Tsui, Zhao, & Abrahamson, 2006).⁶

A third approach is an integrative (hybrid) approach. Scholars are interested in and familiar with mainstream Western theories. But they are also aware of the uniqueness of some Chinese practices. They aspire to develop theories that integrate both mainstream Western theories and Chinese realities. This integrative approach enjoys three advantages. (1) Scholars are interested in investigating the systematic differences in the assumptions behind Western and Chinese theoretical frameworks. (2) Scholars are interested in publishing in English and in establishing a common set of vocabulary that is understandable by non-Chinese-speaking colleagues. (3) Scholars aspire to adhere to the methodological rigor and standards and are willing

⁵ In a keynote speech made at the Asia Academy of Management (AAOM) conference in Tokyo in December 2006, Mike Peng suggested that “If the AAOM had held its meeting 500 or 1,000 years ago, the official language would have probably been Chinese. If the AAOM would hold its meeting 500 or 1,000 years from now, its official language may become Chinese again—just a bold prediction. But for now, the dominance of English in scientific communication is a given fact in life.”

⁶ Similarly, Puffer and McCarthy (2007: 511), two leading Russia management scholars, argue that “We have found it *inappropriate* to conduct context-free research in Russia since so many of the variables in that transitioning situation appeared to be unique and not currently generalizable” (original italics).

to subject their work to the rigorous scrutiny of some reviewers who are methodology experts but who are not necessarily interested in China. The drawbacks entail (1) a long period of time to observe, compare, make sense, and then to theorize, (2) a danger of having such new theoretical work rejected due to reviewers' preference for existing theoretical frameworks, and (3) a lack of appreciation by Chinese-speaking colleagues who are not fluent in English.

We believe that all three approaches to theory development have merits. However, we do want to declare our own bias: We prefer the third, integrative approach. This is driven by the Chinese context as part of the rapidly evolving global economy—a point we discuss next.

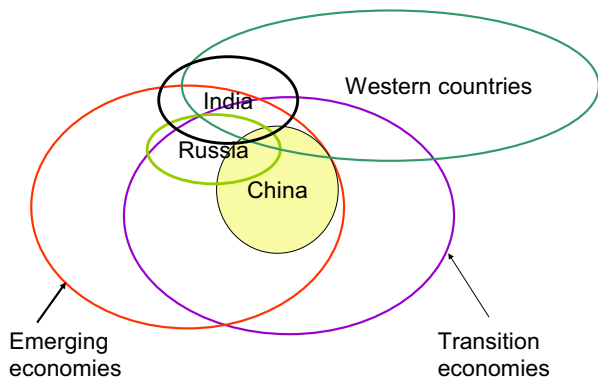
The Chinese context within the global economy

Is China unique in the world? The answer of course is *both* “True” and “False” at the same time, depending on one's perspective (Peng, 2005: 133). Figure 1 places China in the middle. In addition, China is portrayed as a part of “emerging economies” and a part of “transition economies.” China also overlaps with Russia, India, and Western countries, given the increasing diplomatic, business, and cultural interaction between China and these countries. Therefore, it will probably be very difficult to develop China-specific theories that have no relevance elsewhere.

Having said that, we also need to point out that there are substantial parts of China in Figure 1 that do not overlap with India, Russia, and Western countries, suggesting the existence of some relatively (not absolutely) unique aspects of the Chinese context. Figure 2 visually identifies the major forces impacting Chinese firms, organized along three dimensions: (1) cultural environment, (2) institutional framework, and (3) firms' management mechanisms.

In the cultural environment, we increasingly see conflicts (as well as mutual influence) between Chinese culture and Western culture (for example, collectivism versus individualism) (Fang, 2008). Multiple cultures may exist within one firm, especially when some Chinese firms grow larger and become multiregional (and in some cases multinational). Geographic differences in economic development (such

Figure 1 Different contexts for different groups of countries



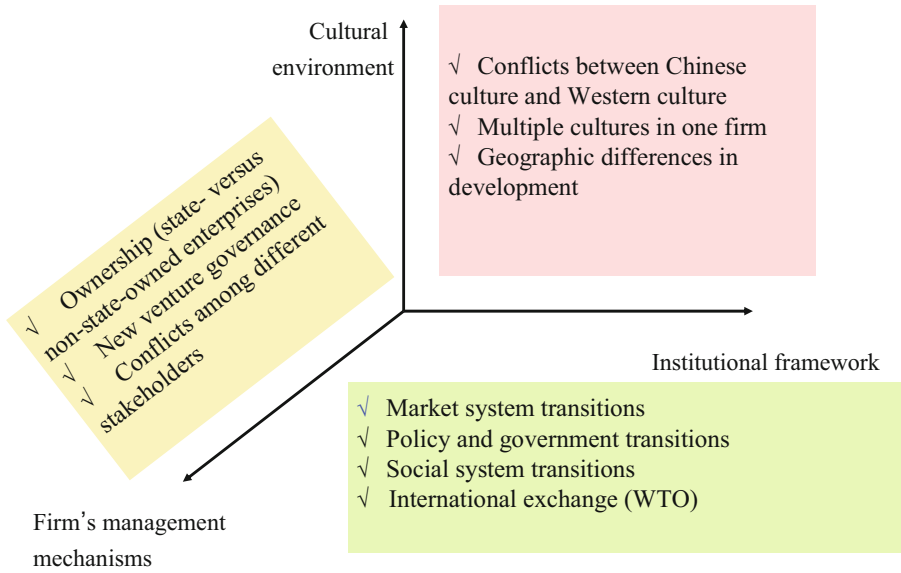


Figure 2 Major forces impacting Chinese firms

as coastal versus inland regions, north versus south, and Shanghai versus Beijing) may lead to different firm behavior.⁷

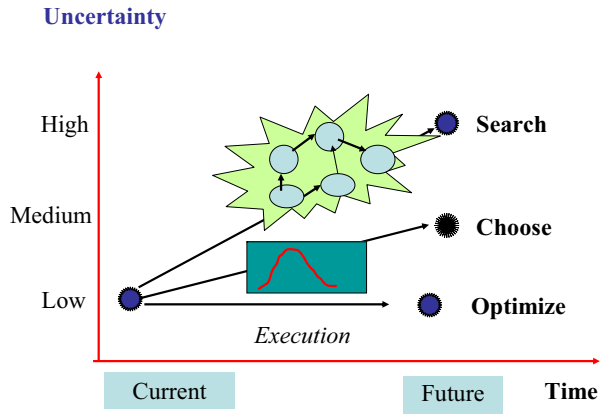
Within the institutional framework, numerous transitions, along market system, policy and government, and social system dimensions, are taking place. In addition, international exchange with global “rules of the game”—especially the World Trade Organization, a global entity to which Chinese acceded in 2001—has prompted numerous transitions (Peng, 2003).

All these changes impact Chinese firms’ management mechanisms. An often studied variable is ownership, in particular state- versus non-state-owned enterprises (Li, Sun, & Liu, 2006b). As entrepreneurship rises, a new area of research is the governance mechanisms of new ventures (Li & Li, 2008). Also, as modern corporate governance mechanisms (such as outside directors) are increasingly introduced, an area of rising research interest is the conflicts among various stakeholders of the firm (Peng, 2004; Peng, Zhang, & Li, 2007; Young et al., 2008). Finally, these management mechanisms are often incomplete and are in constant change, making it difficult to theorize about them. On the other hand, more dynamic ways of theorizing capturing some elements of transitions will be well received (Peng, 2003; Peng, Lee, & Wang, 2005).

Under the influence of these three major forces, each of which is changing rapidly, strategy making at Chinese firms essentially becomes an effort to strategize under different levels of uncertainty (Figure 3). In theory, firms under a low level of uncertainty can choose to optimize its allocation of resources and focus on

⁷ For example, Peng, Zhang, and Li (2007) report that CEO duality—the practice of CEO also serving as chairman of the board—contributes to firm performance among Chinese firms in inland regions, but the relationship is not so strong in coastal regions.

Figure 3 Strategy making under different levels of uncertainty



execution. In practice, such firms may be rare in China. We believe that most Chinese firms operate under either a high or at least a moderate level of uncertainty, necessitating continuous search and experimentation.

However, we do not believe that such a context of operating and strategizing under the condition of uncertainty is totally unique to China. Firms in India, Russia, and other emerging and transition economies also have to confront uncertainty. Firms in Western countries likewise cannot escape from uncertainty—think of the shock introduced by Sarbanes-Oxley to US firms. As a result, scholars interested in theory development in China need to “think global” but “act local.” In other words, the third, integrative approach discussed earlier may be more preferable. Next, we outline two examples of such work.

Two streams of recent work as examples

This section outlines two streams of work over the last decade, led by the first and second authors, respectively, that endeavor to develop theory from strategic management research in China based on the third, integrative approach.

The first stream centers on the relationships between culture, strategic action, and firm performance. Since China initiated institutional transitions, the Chinese culture and reforms in management mechanisms of firms have affected firm performance and displayed unique characteristics that are different from firms in developed economies. In the traditional Chinese business paradigm, *guanxi* (social relationship and connection) has been viewed as the most important factor that influences the strategic management of Chinese firms in terms of strategic orientation (Atuahene-Gima, 2005; Li, Liu, & Zhao, 2006a; Li et al., 2006b), organizational control and innovation (Atuahene-Gima & Li, 2006), and strategic alliances (Hitt et al., 2004). Because *guanxi* is a general base of management mechanisms being adopted in intra- and inter-organizational contexts, the role of formal contract is largely neglected in Chinese firms (Park & Luo, 2001). However, with progress of economic reforms and opening, Chinese firms now increasingly emphasize formal contracts in exchange governance, while still preferring to develop *guanxi* between

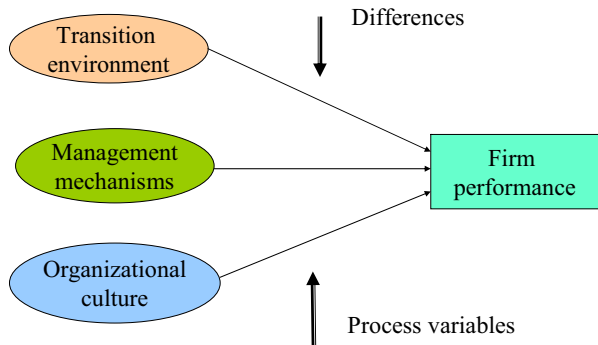
partners (Li et al., 2008; Zhou et al., 2003). In other words, the unique integration pattern of *guanxi* and formal contract differentiate the management mechanisms of Chinese firms at the current stage, relative to firms elsewhere (Figure 4). In this case, by integrating mainstream Western theories (emphasizing formal contracts) and the Chinese culture (emphasizing informal *guanxi*), new theory can be formulated and can have stronger explanatory and predictive power. For example, in China’s transition economy, the integration of relational and contractual governance may achieve better cooperation performance in strategic alliance (Luo, 2002). Compared with Western firms, Li et al. (2008) suggest that Chinese firms’ learning needs would result in unique control patterns in strategic alliances.

The second stream centers on the emergence of the institution-based view of strategy, which is developed from strategic management research in China and other emerging economies (Peng, 2005). While the proposition that “institutions matter” has long been acknowledged, relatively little strategic management research had been done on *how* institutions matter until the 1990s. In other words, institutions often fade into the “background” in Western mainstream research. However, as China research took off in the 1990s, researchers led by Peng and Heath (1996) increasingly realized that what was relegated to the “background” needed to be brought to the “forefront” if we as a field endeavored to enhance our understanding of the intricacies of Chinese firms. Out of many theories, institutional theory excels in its ability to explain and predict complex, changing dynamics such as institutional transitions and strategic responses of the firm. Moreover, because of a relentless interest in comparing and contrasting the Chinese realities with what is going on elsewhere, this institution-based view is not only helpful for China research, but also helpful for advancing global strategy research (Meyer & Peng, 2005; Peng, 2003; Peng, Wang, & Jiang, 2008; Wright et al., 2005). This institution-based view has been advocated by Peng (2006) to be one of the three legs—the other two legs being the more established industry- and resource-based views—that sustain a strategy “tripod” (see Figure 5).

Conclusion

This article has contributed to the literature by (1) outlining the three approaches to theory development in China research, (2) articulating the Chinese context within the

Figure 4 Culture, strategic action, and firm performance during institutional transitions



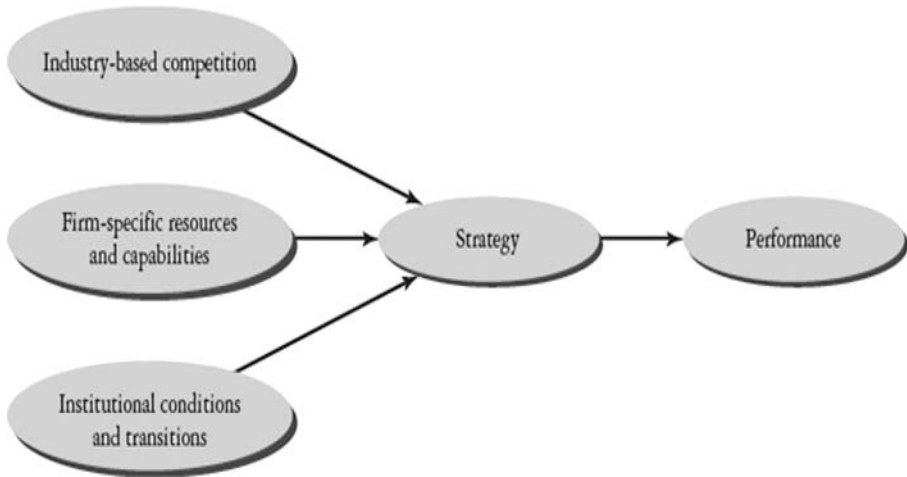


Figure 5 An institution-based view as the third leg for a strategy “tripod”

Source: Peng, M. W. 2006. *Global strategy* (p. 15). Cincinnati: Thomson South-Western

global economy, and (3) highlighting two streams of recent work as examples of following the third, integrative approach to theory development. In conclusion, we agree with Meyer (2006) that China/Asia strategic management researchers need to have more self-confidence to develop theory. Further, we agree with Au (2007: 495) that “cheering oneself to boost confidence is not enough.” We need to work harder and work smarter.

Clearly, the first approach to theory development (“go native”) offers little hope of establishing theory developed in China as part of the global knowledge structure (Xu & Zhou, 2004). As March (2005: 10) eloquently notes: “A missionary group that isolates itself from society in order to protect its distinctiveness maintains its purity but finds itself handicapped in its efforts to penetrate that society with its message.” To the extent that China research thrives on and within the global society of scholars in our field, the second approach (testing mainstream theories in China), often embraced by returnees, makes better sense. However, given the potential “forced fit” between Western theories and Chinese realities (Tsui et al., 2006) and the uncertain future of the returnees’ career (Xu, 2008), whether this approach may sustain itself in the long run remains to be seen. In our view, the third, integrative approach (integrating both worlds and aspiring to develop globally relevant theory from Chinese realities) is challenging but also rewarding.

Drawing on the vocabulary from the convergence versus divergence debate in numerous management areas (such as cultural values and corporate governance), we suggest that in today’s increasingly interconnected world of strategic management research around the world, complete divergence from the global trends in research, which seems to be the ultimate goal of the first approach, is not feasible. At the same time, complete convergence, which seems to embody much of the sentiments centered on the second approach, is not realistic either. Sensible *cross-vergence*, embodied by the third, integrative approach, seems to be the way to go.

Using another metaphor often used in research on multinational enterprises, a “multidomestic” strategy promoted by the first approach (China should have its own

body of theories, so should Brazil, France, Japan, and Russia) probably will not go very far. On the other hand, the limitations of a “global” strategy (the second approach we discussed earlier)—in principle one set of best theories for the entire world, but in practice a set of US-centric theories—are increasingly exposed (March, 2005). Challenging as it is, we need to search for the elusive but ideal “transnational solution” (Bartlett & Ghoshal, 1989) in theory development based on strategic management research in China, which combines both context-free and context-embedded (China-specific) elements. In conclusion, we echo Peng (2005: 137) and recommend that researchers “act local (focusing on China), but think global.”

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