A MICRO–MACRO LINK DURING INSTITUTIONAL TRANSITIONS

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ABSTRACT

One of the leading themes emerging out of recent management and organization research on China is the work on the micro–macro link – specifically, the connection between micro, interpersonal connections, ties, and networks on the one hand, and macro, interorganizational relationships, firm strategies, and performance on the other hand. This chapter provides an overview of the literature on the micro–macro link during China's institutional transitions. Based on a systematic search of the literature, we review 22 papers in nine leading journals that have empirically investigated the micro–macro link, with a focus on the antecedents, contingencies, and outcomes of managerial ties and interlocking directorates. We also propose how the network structure of managerial ties will evolve from cohesion to structural holes in different phases of China's institutional transitions. We conclude with a brief overview of the influence of China studies on research in other contexts and with a call for future research deepening our understanding of the crucial micro–macro link during institutional transitions.

Management and organization research on Asia is a relatively recent phenomenon (Bruton & Lau, 2008; Peng, 2007).[1] Research on management

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and organization in China[2] is more recent. Yet, research on China has taken off since the late 1990s (Peng, Au et al., 2001; Peng, Lu et al., 2001; Quer, Claver, & Rienda, 2007). One of the leading themes emerging out of this research is what Peng and Luo (2000) label the "micro–macro link" – specifically, the connection between micro, interpersonal connections, ties, and networks on the one hand, and macro, interorganizational relationships, strategies, and performance on the other hand.

While research on the elusive Chinese *guanxi* had always existed before (Yang, 1994), such research was largely relegated to the domain of area studies, published in China-specific journals such as *China Quarterly* (Guthrie, 1998; Walder, 1989), and set apart from mainstream, discipline-based research. While acknowledging that such earlier scholarship is "superb and worthy of respect on its own terms," Walder (2002, p. 4) criticizes such research of being "nondisciplinary." It is the more theoretically oriented and empirically rigorous new research, rallied around the micro–macro link, that has propelled a new generation of China research into core disciplinary journals in management (such as the *Academy of Management Journal* (*AMJ*; Peng & Luo, 2000) and *Academy of Management Review* (*AMR*; Peng & Heath, 1996)) and sociology (such as the *American Journal of Sociology* (*AJS*; Keister, 1998) and *American Sociological Review* (*ASR*; Keister, 2001; Nee, 1989; Walder, 2003)). Such research has not only placed China on the center stage of social science inquiry (Walder, 2002), but also directly contributed to theory building in these disciplines (Li & Peng, 2008; Peng, 2003; Peng & Heath, 1996; Peng, Wang, & Jiang, 2008).

As a literature rapidly develops and accumulates, it is helpful to take stock of our accomplishments, discuss limitations, and point out future directions. Therefore, in this chapter, we focus on a key question: How has the management and organization literature on the micro–macro link in China during its institutional transitions evolved?

LINKING THE MICRO AND THE MACRO IN INSTITUTIONAL TRANSITIONS

A widely used, non-technical definition of institutions is that they are "rules of the game" (North, 1990). Consequently, institutional transitions are "fundamental and comprehensive changes introduced to the formal and informal rules of the game that affect organizations as players" (Peng, 2003, p. 275). The scale and scope of China's institutional transitions are the subject of thousands of articles[3] and hundreds of books, and are clearly beyond the scope of this chapter. The more focused literature that we work with here deals with a crucial question: ‘‘How do firms play the new game when the new rules are not completely known?’’ (Peng, 2003, p. 283).

The answer typically boils down to various forms of informal relationships centered on interpersonal connections, ties, and relationships that managers cultivate. Given that formal market-supporting laws, rules, and regulations are underdeveloped but firms need to grow during the ‘‘sink-or-swim’’ reform era, firms are often forced to rely on such informal micro ties to cultivate interorganizational relationships through alliances and networks in order to attain better firm performance (Peng & Heath, 1996).

According to social network theory, managers with better interpersonal connections tend to earn more income, get more frequent promotions, and have better careers – in short, there is a clear *micro–micro* link between ties and rewards. This micro–micro link has been widely documented in China (Li & Walder, 2001) and elsewhere (Burt, 1997; Granovetter, 1985; Walder & Nguyen, 2008).

What is interesting, but also challenging, is the identification and documentation of the micro–macro link, connecting micro, personal-level relationships with macro, organizational-level actions (such as firm strategy) and outcomes (such as firm performance). Scholars interested in such a micro–macro link have paid a great deal of attention to the effects of interlocking directorates in Western corporations. Despite decades of research, evidence on a micro–macro link between board interlocks and firm performance has remained largely inconclusive (Mizruchi, 1996). Frustrated scholars note, ‘‘Perhaps alternative types of interorganizational relations … have a more consistent impact on [firm] performance, but this has yet to be demonstrated empirically’’ (Mizruchi & Galaskiewicz, 1994, p. 241).

It is China research that has pushed the research agenda on the micro–macro link further. Keister (1998, p. 428) first reports that ‘‘in Chinese business groups, interlocking directorates have a positive effect on firm performance and productivity.’’ While Keister’s (1998) work is a breakthrough, board interlocks represent one special type of networks, which represent formal interorganizational relationships (Ren, Au, & Birtch, 2009). Since the number of outside directors on any given company’s board is limited (Peng, 2004), there are numerous other interpersonal network ties not captured by data on board interlocks. Focusing on managerial ties (but not board interlocks), Peng and Luo (2000) use survey data to demonstrate, for the first time, that micro interpersonal ties directly impact macro organizational performance. Peng and Luo (2000) not only empirically establish the "micro–macro link," but also coin this term.[4] Since then, a large number of studies have followed up, leading to a proliferation of work centered on the micro–macro link. Next, we trace how research on the micro–macro link during China's institutional transitions has evolved and how this research has influenced work beyond the China context.

METHODOLOGY

Journal Selection

We first identify the journals to be included in the review. We choose the following 11 journals: *AMJ*, *Administrative Science Quarterly* (*ASQ*), *AJS*, *ASR*, *Asia Pacific Journal of Management* (*APJM*), *Journal of International Business Studies* (*JIBS*), *Journal of Management* (*JM*), *Journal of Management Studies* (*JMS*), *Organization Science* (*OSc*), *Organization Studies* (*OSt*), and *Strategic Management Journal* (*SMJ*). These are generally regarded as the leading outlets in management and organization research in which China scholars aspire to publish their work (Peng, Au et al., 2001; Peng, Lu et al., 2001; Quer et al., 2007). Because we choose to focus on empirical research, leading journals such as the *AMR* that exclusively publish theoretical (non-empirical) work are not considered.

Paper Selection

After identifying these journals, we then choose the papers to be reviewed. We focus on two fields: (1) managerial ties and (2) interlocking directorates. Managerial ties are defined as "executives' boundary-spanning activities and their associated interactions with external entities" (Geletkanycz & Hambrick, 1997, p. 654). Following Peng and Luo (2000), we identify two types of managerial ties in China. The first type is ties with managers at other firms (referred as "business ties" in Tables 1 and 2), represented by cross-firm ties among executives, such as the managerial ties between suppliers and buyers, between competitors, and so on. The second type is managerial ties with government officials (referred as "government ties" in Tables 1 and 2). For interlocking directorates, we employed Mizruchi's definition: "one person affiliated with one organization sits on the board of directors of another organization" (1996, p. 271). In addition to managerial ties and interlocking directorates, we also examine the social capital

Table 1. Studies on the Micro–Macro Link in Mainland China.

Paper	Journal	Sample and Method	Ties	Main Findings
Xin and Pearce (1996)	*AMJ*	Structured interview with 32 managers in various ownership companies in China	Business and government ties	Executives in private companies are more dependent on *guanxi* than executives in state-owned or collective-hybrid companies
Keister (1998)	*AJS*	Interview-based panel data on China's largest 40 business groups and the financial performance of their 535 member firms	Interlocking directorates	There is a positive relationship between the presence and predominance of interlocking directorates and firm performance
Peng and Luo (2000)	*AMJ*	Mail survey questionnaire to 127 top managers in China	Business and government ties	The positive effect of managerial ties on firm performance is contingent on firm and industry factors
Li and Atuahene-Gima (2001)	*AMJ*	Onsite interview with top managers in 184 new technology ventures in Beijing	Government ties	Political networking does not moderate the relationship between product innovation strategy and the performance of new technology ventures
Luo (2001)	*JM*	Mail survey of 168 MNE subsidiaries in the Yangtze River Delta and the Pearl River Delta	Business and government ties	Having ties with managers at other businesses and with government officials is positively correlated with an MNE subsidiary's local responsiveness
Park and Luo (2001)	*SMJ*	Mail survey of 128 firms in China	Business and government ties	Institutional, strategic, and organizational factors determine *guanxi* utilization, which leads to higher firm performance
Luo (2003)	*SMJ*	Mail survey questionnaire to executives in 364 firms in manufacturing industries in China	Business and government ties	Industrial conditions influence the level of executives' managerial networking and the relationship is moderated by firm's strategic proactiveness

Table 1. (*Continued*)

Paper	Journal	Sample and Method	Ties	Main Findings
Li (2005)	*APJM*	Onsite interview with senior managers in 181 foreign-invested enterprises (FIE) operating in China	Business and government ties	Firms' strategic orientations influence the formation of managerial networks, which positively influence the performance of FIEs
Wu and Leung (2005)	*APJM*	Structured questionnaire to 177 CEOs of small- and medium-sized enterprises in rural China	Business and government ties	There is a micro–macro link from a manager's value of reciprocity, to trust and to firm performance
Li and Zhang (2007)	*SMJ*	Onsite questionnaire interview of 184 new technology ventures in Beijing	Government ties	Managers' political networking is positively related to new venture performance. But the positive relationship is not moderated by ownership or dysfunctional competition
Zhou et al. (2007)	*JIBS*	Interview-based questionnaire surveys with top managers of 129 small and medium enterprises in Zhejiang	Business and government ties	*Guanxi*-related social networks mediate the relationship between inward and outward internationalization and firm performance
Gao et al. (2008)	*APJM*	Onsite survey of 174 local and foreign companies in China	Business ties and university ties	Absorptive capacity moderates the positive effect of managerial ties on firm's innovativeness

Li et al. (2008)	*SMJ*	Onsite survey of 280 firms in manufacturing industries in China	Business and government ties	Managerial ties have different impact on the performance of foreign firms and domestic firms and the relationship is contingent on industrial factors
Luk et al. (2008)	*JIBS*	Mail survey of 189 manufacturing companies in various industries located in Beijing, Shanghai, and Guangzhou	Business and government ties	*Guanxi* with government officials positively affect administrative innovativeness. *Guanxi* with managers at other firms has a direct positive relationship with firm performance and enhances the positive effect of administrative innovativeness on firm performance, but it does not affect product-related innovativeness
Zhang and Li (2008)	*APJM*	Questionnaire survey of 163 firms from the textile and IT clusters in Guangdong province	Business and government ties	Managerial ties are classified into four types, among which business ties within a cluster generate strongest influence on sales growth
Ren et al. (2009)	*APJM*	Archival data of 949 publicly listed companies	Interlocking directorates	Chinese interlocking networks share similarities and differences with their Western counterparts. Interlocking ties occurred mainly in smaller business groups and were more prevalent among industrial peers

Table 2. Studies on the Micro–Macro Link in other Contexts.

Paper	Journal	Sample and Method	Ties	Main Findings
Lee and Tsang (2001)	*JMS*	Questionnaire survey with 168 Chinese entrepreneurs in small- and medium-sized businesses in Singapore	Business ties	The frequency and breadth of an entrepreneur's networking is positively related to venture growth and the relationship is contingent on firm size
Peng, Au et al., 2001; Peng, Lu et al., 2001	*APJM*	Archival data on the top 200 publicly listed firms in Thailand	Interlocking directorates	Compared with non-MNEs, MNEs have more densely connected interlocks, occupy more central locations in the interlocks network, and appoint more military directors
C. Chung (2005)	*OSt*	Case studies of five major Taiwanese business groups and demographic data of 150 Taiwanese group founders	Business and government ties	Personalistic network is a necessary but insufficient condition to explain the entrepreneurship of Taiwanese group founders. Personalistic networks influenced group diversification in the early stages but the influence decreased with the development of market institutions
H. Chung (2006)	*APJM*	Archival data of Taiwan's largest 100 business groups	Government ties	Possession of managerial ties with government determines a business group's decision to enter a deregulated industry

Acquaah (2007)	*SMJ*	Questionnaire survey of 106 manufacturing and service firms operating in Ghana	Business, government, and community ties	Social capital developed from ties with managers at other firms, government officials, and community leaders, and is positively correlated with firm's performance. This positive relationship is contingent on firm's strategic orientations
Siegel (2007)	*ASQ*	Archival data of 665 firms listed on the Korea Stock Exchange	Government ties	Having ties with regime in power increased the rate at which South Korean companies formed cross-border strategic alliances, but having ties with political enemies of the regime in power decreases that rate. Ties with government remained valuable after long period of liberalization in Korea
Luk et al. (2008)	*JIBS*	Mail survey of 203 manufacturing companies in various industries in Hong Kong.	Business and government ties	*Guanxi* with managers at other firms positively affects product-related innovativeness, but does not directly affect firm performance. *Guanxi* with government officials does not affect administrative innovativeness

embedded in them. The term social capital has been defined in different ways. Despite this diversity, a general definition is "… the sum of resources, actual or virtual, that accrue to an individual or a group by virtue of possessing a durable network of more or less institutionalized relationships of mutual acquaintance and recognition" (Bourdieu & Wacquant, 1992, p. 119).

We use the Social Science Citation Index (SSCI) database as our primary search engine, since all the journals, except *APJM*, are included in SSCI.[5] For *APJM*, we use the search engine provided by the journal's website (www.springer.com/10490) to search within that journal. After searching SSCI and *APJM* website, we use EBSCO to double check our search results. In SSCI, we use the search field of topic to identify our target papers. Topic includes the following fields: title, abstract, author keywords, and keywords plus. To identify papers about managerial ties, we enter the following four combinations of words into topic column, respectively: (1) *guanxi*, (2) ties AND China, (3) network*[6] AND China, and (4) social capital AND China.

Then, we content-analyze each paper in the list from search results and choose those that meet the following requirements: (1) The paper investigates informal personalized ties between managers in two firms or between a manager and a government official. So the ties are at the individual level. We exclude papers investigating ties at the firm or organizational level, such as contractual ties. (2) The paper investigates personal ties with managers at other firms or government officials. We exclude those examining kinship ties, friendship ties, and other non-work-related ties. (3) The ties should occur outside the focal person's organization. We exclude those investigating ties within a firm. (4) The antecedents, contingencies, and outcomes of ties are at the firm level or above. We exclude those investigating individual-level antecedents, contingencies, and outcomes, such as personality traits and venture capitalists' decisions. (5) We only consider papers with an empirical content. Based on these five criteria, we identify 14 articles about managerial ties. Among them, nine articles relate to mainland China, one is a comparative study between mainland China and Hong Kong, and four relate to other contexts but include China either in abstract or in keywords. The last set of these four articles includes China as the topic word (per SSCI). Therefore, they are clearly influenced by China studies and we include them in our review. For papers about interlocking directorates, we enter interlock AND China as the topic and identify one paper. In total, there are 15 papers about managerial ties or interlocking directorates that are published in eight journals. Among these journals, *SMJ* published five papers, *AMJ* published three, *JIBS* published two, and *ASQ*, *AJS*, *JM*, *JMS*, and *OSt* each published one.

For *APJM*, we follow the same procedure and criteria to identify papers. The only difference is that the *APJM* website does not allow us to search by "topic" function. Therefore, we search within both abstracts and titles. In doing so, we have identified five empirical papers about managerial ties and two about interlocking directorates. Among the five managerial ties papers, four relate to mainland China and one relates to other contexts. Among the two interlocking papers, one relates to mainland China and the other relates to other contexts.

Finally, we search in the EBSCO database by the same procedure and criteria to double check if we have omitted any paper. No new paper is added after we search by EBSCO. Overall, in total, 22 papers are included in our review, 19 about managerial ties and 3 about interlocking directorates (see Tables 1 and 2). The trend is clearly growing (Fig. 1).

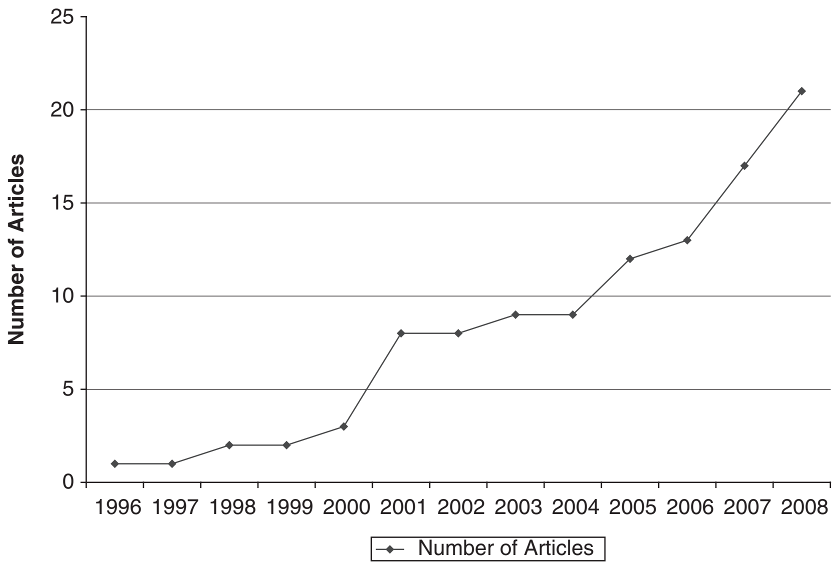


Fig. 1. Micro–Macro Link Articles related to China. Published in Nine Journals during 1996–2008 (Cumulative).

WHAT IS KNOWN ABOUT THE MICRO–MACRO LINK

The relationships explored in the 22 papers are summarized according to the links depicted in Figs. 2 and 3. Extending Li's (2005) conceptual framework, we synthesize the literature on managerial ties in Fig. 2, including the antecedents, contingencies, and outcomes of two types of managerial ties.

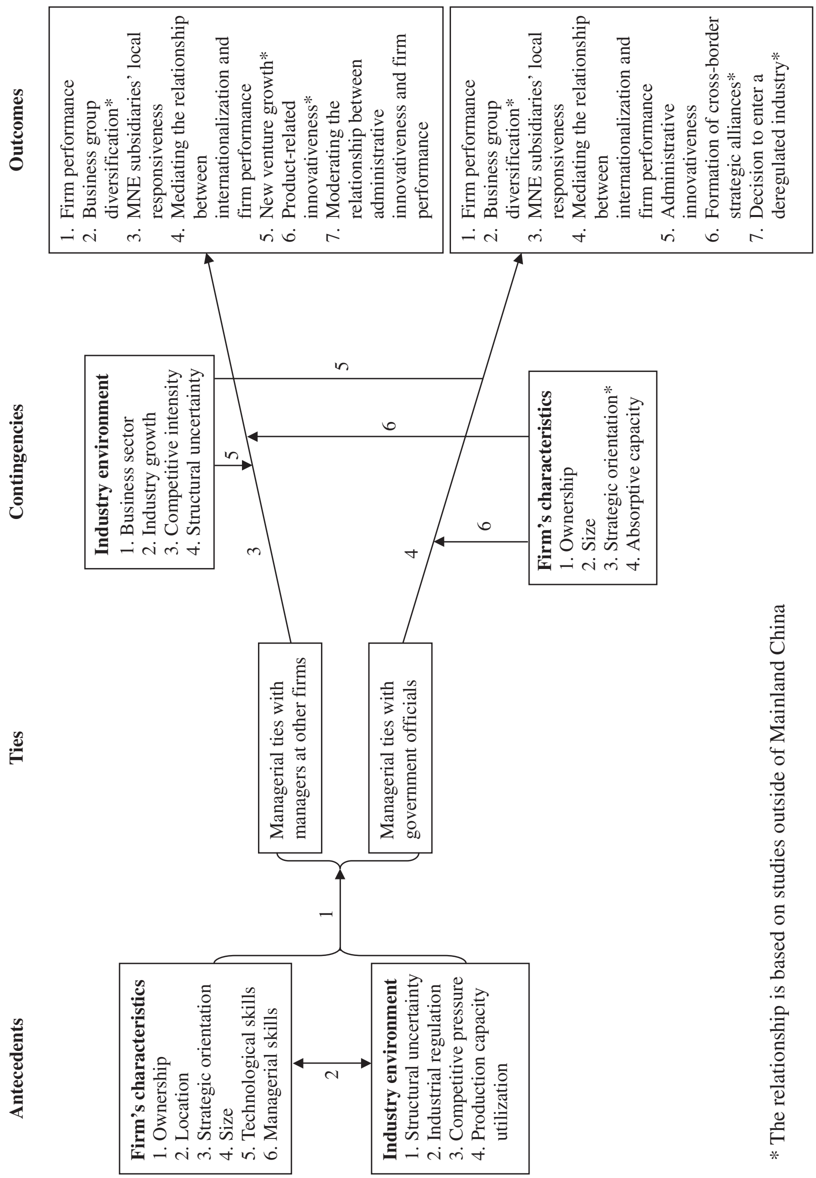
Link 1 depicts how firm characteristics and industry environment influence the formation of managerial ties both with managers at other firms and with government officials. Firm characteristics, including ownership, location, strategic orientation, size, technological skills, management skills, and age, have different influences on the likelihood and intensity of managerial ties. Xin and Pearce (1996) find that compared with executives in state-owned or collective-hybrid companies, executives in private companies consider *guanxi* more important, depend more on *guanxi*, build more ties with government officials, give more unreciprocated gifts, and trust their ties more. Their findings show the effect of firm ownership – specifically, private versus non-private ownership – on ties formation.

Park and Luo (2001) support the ownership effect by differentiating state-owned with non-state-owned firms and find the latter are more likely to form both business and government ties. In addition, they report that firm's location and strategic orientation also significantly influence the formation of both types of ties. However, firm size, organizational skills, and managerial skills are only correlated with the formation of business ties, not government ties. Finally, they find firm age to have no influence on tie formation.

Consistent with the findings of Park and Luo (2001), Li (2005) shows that firm's strategic orientation – specifically market orientation, technology orientation, and entrepreneurial orientation – is correlated with the likelihood of tie formation. Technology orientation exerts an opposite effect on different type of ties while market orientation and entrepreneurial orientation generate the same effect on both ties.

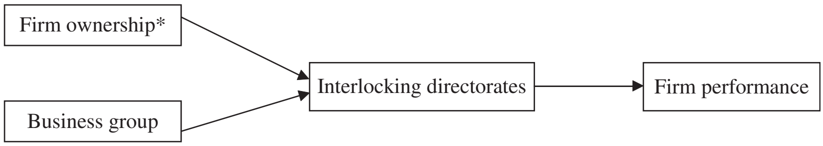
Luo (2003) is the first paper that investigates how industry environment influences the level of managerial networking. It finds that among the five industrial attributes, structural uncertainty, industrial regulation, competitive pressure, and production capacity utilization are all related to networking while industrial growth is not.

Link 2 shows the interacting effect between firms' characteristics and industry environment on ties formation. Luo (2003) reports that a firm's



* The relationship is based on studies outside of Mainland China

Fig. 2. Research on the Micro–Macro Link Centered on Managerial Ties.



* The relationship is based on studies outside of Mainland China

Fig. 3. Research on the Micro–Macro Link Centered on Interlocking Directorates.

strategic proactiveness moderates the effects of industry environment on managerial networking, while Li (2005) finds that industry's competitive intensity moderates the relationship between a firm's strategic orientation and managerial networking.

Link 3 shows that ties with managers at other firms lead to several firm-level outcomes. The most frequently discussed is firm performance, captured by various measures (Li, 2005; Li, Poppo, & Zhou, 2008; Luk et al., 2008; Park & Luo, 2001; Peng & Luo, 2000; Wu & Leung, 2005; Zhang & Li, 2008). In addition to the effect on firm performance, managerial ties with managers at other firms also lead to new venture growth (Lee & Tsang, 2001), MNE subsidiaries' local responsiveness (Luo, 2001), firm's innovation (Gao, Xu, & Yang, 2008; Luk et al., 2008), and business group diversification (C. Chung, 2005). Ties with managers at other firms also mediate the relationship between internationalization and firm performance (Zhou, Wu, & Luo, 2007) and moderate the relationship between administrative innovativeness and firm performance (Luk et al., 2008).

Link 4 shows that ties with government officials lead to several firm-level outcomes. Similar as the ties with managers at other firms, ties with government officials led to higher firm performance (Li, 2005; Li et al., 2008; Peng & Luo, 2000; Park & Luo, 2001; Wu & Leung, 2005; Zhang & Li, 2008), increased MNE subsidiaries' local responsiveness (Luo, 2001), promoted business group diversification (C. Chung, 2005), and mediated the relationship between internationalization and firm performance (Zhou et al., 2007). The unique value of government ties lies in the effect on administrative innovativeness (Luk et al., 2008), the formation of cross-border strategic alliances (Siegel, 2007), and a business group's decision to enter a deregulated industry (H. Chung, 2006).

Link 5 shows how industry environment moderates the relationship between managerial ties and firm-level outcomes. The positive effect of managerial ties on firm performance is contingent on the business sector that a firm is in (Peng & Luo, 2000), the industry growth (Peng & Luo, 2000), and the competitive intensity and structural uncertainty that a firm faces in its industry (Li et al., 2008).

Link 6 shows how a firm's characteristics moderate the relationship between managerial ties and firm-level outcomes. The positive effect of managerial ties on firm performance is contingent on firm ownership (Li et al., 2008; Peng & Luo, 2000), firm size (Peng & Luo, 2000), and strategic orientation (Acquaah, 2007). In addition, the positive effect of entrepreneur's networking on venture growth is contingent on firm size (Lee & Tsang, 2001). Finally, the positive effect of managerial ties on firm's innovativeness is contingent on firm's absorptive capacity (Gao et al., 2008).

Fig. 3 depicts the relationship between interlocking directorates and the antecedents and outcomes. Interlocking directorates are positively associated with firm performance (Keister, 1998). They occur mainly in smaller business groups and are more prevalent among industrial peers (Ren et al., 2009). Compared with non-MNEs, MNEs have more densely connected interlocks, occupy more central locations in the interlocks network, and appoint more military directors (Peng, Au et al., 2001; Peng, Lu et al., 2001).

THEORETICAL ARGUMENTS FOR FURTHER RESEARCH

Systematically reviewing the micro–macro literature not only helps us take stock in terms of what has been done, but also helps identify missing gaps that will be useful in future research. As we can see in Fig. 2, empirical research has comprehensively investigated the antecedents, contingencies, and outcomes of managerial ties. Peng (2003) argues that the importance of managerial ties will decline as market-supporting institutions are better developed. However, no empirical research has employed a longitudinal approach to examine the *evolution* of managerial ties (Hite & Hesterly, 2001). Peng and Zhou (2005) argue conceptually that as government control and intervention decrease and legal frameworks become more comprehensive and effective, the intensity of business-to-business ties and business-to-government ties will change from strong to weak during institutional transitions. Except an earlier qualitative study by Guthrie (1998), no study has comprehensively tested this claim using longitudinal and quantitative methods.

Extending the arguments advanced in Peng (2003) and Peng and Zhou (2005), we propose that the network structure of managerial ties will change in different periods of China's institutional transitions. As China's economy develops from the early phase to the late phase, more and more impersonal, rule-based, and arm's-length transactions will emerge. At the same time, transactions based on personal connections and managerial ties will still play an important role, due to the fact that economic transactions are embedded in numerous social relations (Granovetter, 1985).

In the early phase of China's institutional transitions, managerial ties tend to build into a cohesive network, in which each manager is connected with other members by strong ties. According to Coleman (1990), dense, interconnected networks can breed trust among members and thus prevent opportunistic behaviors. Strong ties can facilitate highly non-codified knowledge transfer (Hansen, 1999) and fine-grained information transfer (Uzzi, 1997). They also promote joint problem-solving, improve members' ability to quickly utilize market opportunities, and motivate members to share risks with each other (Uzzi, 1997). These benefits not only result from the trust that network closure generates, but also come from the third-party monitoring that cohesive network builds (Granovetter, 1985). Since members are linked with common third parties, an opportunistic behavior may bring serious damage to defectors' reputation and lead to long-lasting negative consequences (Gulati, 1995).

China's transition economy is characterized by "weak market structures, poorly specified property rights, and institutional uncertainty" (Nee, 1992, p. 4). Since firm behaviors are constrained by high transaction costs, underdeveloped markets, and strong government intervention (Boisot & Child, 1996; Keister, 2009), firms have to cultivate personal connections (*guanxi*) rather than relying on contracts and legal framework to implement transactions. Cohesive networks can protect members' assets by specifying property rights, and provide members with valuable resources that are not accessible through the underdeveloped strategic factor market. The normative pressures generated by cohesive networks help reduce opportunistic behaviors and thus decrease transaction costs. In all, managerial ties tend to build into cohesive networks due to the high environmental uncertainty and underdeveloped market in the early phase of China's institutional transitions.

In contrast, in the late phase of institutional transitions, the structure of managerial networks will become rich in structural holes. According to Burt (1992, 1997), people who occupy structural hole positions can acquire information benefits and control benefits by bridging the disconnected members in a social network. The weak ties that bridge these disconnected members can provide brokers with diverse and novel ideas that are socially distant from them (Granovetter, 1972; Burt, 1992). In addition to better access to information, advantages in negotiations and recognition of opportunities also result from structural hole positions (Burt, 1992, 1997).

In the late phase of China's institutional transitions, the improvement of legal framework, the development of property rights, and the diminishing of government intervention greatly reduce uncertainty and facilitate the maturing of a market economy, which enables managers to take advantage of structural hole benefits (Lin, Peng, Yang, & Sun, 2009). First, as market develops and transaction becomes more complex and involves more transaction partners (North, 1990), managers are able to build networks with many disconnected members. The lack of connections among members in the network provides broker managers with diversified information, which helps them identify potential opportunities, monitor market dynamisms, and acquire new knowledge and skills. Second, with the development of legal framework and property rights, managers become more willing to conduct arm's-length transactions (North, 1990). Thus, brokers are able to reduce the search costs of disconnected managers by introducing them to each other and may seek control benefits by manipulating each partner's behaviors (Lin et al., 2009).

In this late phase, cohesive networks may decrease in number, because the gradually developed formal institutions serve many functions of the former cohesive networks, such as inhibiting opportunistic behaviors, reducing transaction uncertainty, and providing necessary resources. Meanwhile, the disadvantages of cohesive networks may outweigh the benefits. Strong ties embedded in a cohesive network tend to circulate redundant information among members, thus providing no novel opportunities (Granovetter, 1972). Cohesive networks also generate normative and conformity pressures that can force members to sacrifice their own benefits (Coleman, 1988; AU :2 Portes & Sensenbrenner, 1993). The high cohesiveness of a manager's network may lower the manager's ability to adapt to the changing requirements of a new task environment (Gargiulo & Benassi, 2000). Finally, the inertia resided in strong ties can restrain members from fully exploring other possibilities (Hansen, 1999).

Overall, we argue that the structure of managerial networks will change from a cohesive network to a network rich in structural holes as China transits from planned to market economy. We believe that these theoretical arguments regarding the evolution of managerial networks warrant attention from empirical researchers in the future. Furthermore, future research can examine how the micro-level changes in the structure of managerial networks can influence the macro-level organizational outcomes, such as those discussed in the extant literature.

DISCUSSION AND CONCLUSION

Overall, management and organization research on China, with a focus on the micro–macro link, has been flourishing since the late 1990s. From a small number of studies appearing in area-studies outlets, research on the micro–macro link has now routinely appeared in leading discipline-based journals in management and sociology. Among several streams of recent China research, the stream on the micro–macro link has become the most widely cited and thus most influential (Quer et al., 2007). Moreover, this research has asserted its influence beyond China. As we can see from Table 2, research on managerial ties and interlocking directorates in China has influenced related studies in other contexts, such as Singapore (Lee & Tsang, 2001), Thailand (Peng, Au et al., 2001; Peng, Lu et al., 2001), Taiwan (C. Chung, 2005; H. Chung, 2006), Ghana (Acquaah, 2007), South Korea (Siegel, 2007), Hong Kong (Luk et al., 2008), and the United States (Lin et al., 2009). These findings have enriched our understanding of the antecedents of interlocking directorates and the outcomes of managerial ties *around the world*.

Future research may need to compare the different roles that managerial ties play in a variety of contexts. To the best of our knowledge, there are only two comparative studies. Luk et al. (2008) conduct a comparative study between mainland China and Hong Kong and show that managerial ties serve different functions in these two contexts. Lin et al. (2009) compare and contrast China and the United States in the context of alliances and acquisitions. Lin et al. report interesting findings: in China, more centrally located firms are *more* likely to acquire member firms in an alliance network. But in the United States, more centrally located firms are *less* likely to engage in similar acquisitions. Clearly, the benefits enjoyed by centrally located firms in China and the United States are different. These intriguing findings warrant further exploration.

In addition, future work may explore the impact of informal institutional transitions on the evolution of network ties. For example, how does the change in cognitive pillar and normative pillar (Scott, 1995) influence managers' perceptions, values, and beliefs? Such a change may in turn affect the ties. Furthermore, the interacting effect between formal institutions and informal institutions on managerial ties may need to be addressed in future research (Peng & Chen, 2009; Peng & Jiang, 2005).

In conclusion, research on the micro–macro link during China's institutional transitions has pushed the frontier of management and organization research, and generated excitement among scholars not only interested in

China, but also interested in numerous other countries. Despite the progress made, we are far from achieving a complete understanding of the mechanisms underpinning the micro–macro link during institutional transitions. Therefore, more sustained efforts by scholars in and out of China will be necessary in the years to come.

NOTES

1. The leading management journal focusing on Asia, the *Asia Pacific Journal of Management*, celebrated its 25th anniversary in 2008 (Peng, 2007).

2. In this article, China refers to the People's Republic of China (or mainland China), excluding Hong Kong, Taiwan, and other Chinese-speaking regions. For research on Greater China other than mainland China, see Peng, Au, and Wang (2001), Peng, Lu, Shenkar, and Wang (2001), and Yeung (2006).

3. See Keister (2009) for a most recent example.

4. Quer et al. (2007, p. 368) report that Peng and Luo (2000) is the most cited empirical paper on China among 180 such papers published in 12 leading journals between 2000 and 2005.

5. Recently, *APJM* was accepted by SSCI as of 2008.

6. Network* represents any word that includes the characters of network, such as network, networks, and networking.

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