

Toward Alliance Postsocialism: business strategies in a transitional economy

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The phenomenal growth of the Chinese economy has caught worldwide attention in recent years. Since the growth of the economy fundamentally boils down to the growth of the firm, it is important to understand how individual firms craft and implement business strategies to achieve growth (Peng, 1997). Understanding more about business strategies in China is not only of academic significance, but can also be enormously helpful for foreign firms interested in collaborating and/or competing against Chinese enterprises. Based on our fieldwork, we highlight recent development in the literature on business strategies in China, and suggest that a distinctive 'alliance postsocialism' has emerged.

A Network and Alliance Perspective

The literature identifies three basic strategies for firm growth: generic growth, acquisition, and network expansion. According to transaction cost economics (Williamson, 1985), generic growth can be considered as growth through the 'hierarchy', and acquisition is growth via the 'market'. By extension, network expansion can be regarded as a strategy of growth that is neither market nor hierarchy: It relies on strategic alliances and joint ventures whereby two or more firms combine forces (Powell, 1990).

In previous studies (e.g. Peng, 1994; Peng & Heath, 1996), we argued that, theoretically, firm growth strategies in China are influenced by the joint impact of the legacy of central planning and the East Asian tradition of engaging in personalised exchanges. As a result, neither generic growth nor acquisition, two traditional growth strategies found among Western firms, is viable for Chinese firms. Instead, firms settle on a network-based strategy of growth, building on strategic alliances and interorganisational networks based on interpersonal (guanxi) networks cultivated by managers. In short, a network and alliance perspective has emerged to account for the strategic choice for firm growth in China.

Evidence from China

While analysis is underway, our findings were based on six case studies conducted by fieldwork in China. Because of the sensitive nature of inquiring

about managers' personal networks and how these networks translate into interorganisational relationships, field studies with face-to-face interviews are deemed as the only appropriate method; other methods such as mail surveys may result in a very low response rate (Xin & Pearce, 1996).

The findings converge on a network and alliance strategy enthusiastically practised by all the firms. Firms differing in size and ownership were all found to be engaging in network and alliance activities in order to achieve growth (Peng, 1997; Tan, 1996; Tan & Li, 1996). By developing interorganisational networks and alliances, strategic resources can be traded and shared among member firms and firm growth can be achieved (Chi, 1994), while former ownership transfer, still a politically sensitive issue in China, can be avoided.

This perspective not only explains why *guanxi* is so important in China (Luo & Chen, 1996; Xin & Pearce, 1996), but also explains why Chinese firms are so interested in establishing strategic alliances and joint ventures with foreign firms. Therefore, the network and alliance perspective helps to fill a gap in the joint venture and foreign entry literature, namely, the intentions and strategies of indigenous firms in China, as opposed to those of entering foreign firms. Finally, this perspective also bridges a gap between micro- and macro-level organisational research. *Guanxi* among top managers is a micro, interpersonal relationship; but how to effectively translate interpersonal *guanxi* into interorganisational relationships becomes a macro, strategic issue (Peng, 1998).

A Global Context

Business strategies do not evolve in a vacuum. In a global context, the findings that Chinese firms employ a network-based strategy for growth is not surprising, given China's embeddedness within the East Asian tradition. Taiwanese *jituanqiye*, Korean *chaebol*, and Japanese *keiretsu* have all been found to exhibit a high level of propensity in network and alliance activities (Hamilton & Biggart, 1988).

Moreover, Chinese firms' propensity to employ a network-based strategy for growth is also driven by the structural imperative of the transitional economy (Peng & Heath, 1996). Although Chinese firms and their managers share very few cultural similarities with their counterparts in Eastern Europe and the former Soviet Union, research has found that firms in countries such as Hungary, Poland, and Russia have also extensively relied on a network-based strategy for growth (Burawoy & Krotov, 1992).

Finally, Western firms have become increasingly interested in pursuing network- and alliance-based growth in recent decades, developing extensive interorganisational relationships such as strategic alliances, joint ventures, and R&D consortia (Powell, 1990). Unlike firms in transitional economies such as China or Russia which have limited strategic choices owing to their institutional constraints, Western firms have a wider range of strategic choices. Nevertheless, a network and alliance strategy has increasingly been chosen by Western firms, thus indicating a global convergence of interest in the particular strategy for growth, which is neither 'market' nor 'hierarchy'.

Toward Alliance Postsocialism

Given the importance of institutions in reducing transaction costs and facilitating economic growth (North, 1990) and the widely reported, underdeveloped nature of China's institutional structures (Nee, 1992), researchers are puzzled by the question: 'How can China be achieving rapid rates of growth while retaining [such] an institutional order?' (Boisot & Child, 1996, p. 607). Our findings suggest that the answer to this question seems to, at least partially, lie in the interpersonal networks cultivated by managers which serve as substitutes for formal institutional support in a highly volatile and turbulent environment (Peng, 1994, 1996, 1997; Tan, 1996; Tan & Li, 1996; Tan & Litschert, 1994; Xin & Pearce, 1996). In other words, the micro-macro link between managerial networks and firm growth may be one of the key factors behind China's recent economic growth.

While Boisot & Child (1996) predicted that China will evolve into a 'network capitalism', we suggest that China may evolve into an institutional structure that is neither socialism nor capitalism in the classical sense. Stark (1996) reached a similar conclusion based on his fieldwork in post-1989 Hungary, whereby a distinctive East European 'capitalism' that is neither the Anglo-American version nor the Asian version is emerging. Given the persistent reluctance for the Chinese government, media, and practitioners to embrace the term 'capitalism', we would suggest that 'postsocialism' perhaps is the best word to characterise China's transitional economy. Overall, our findings, as well as a sizeable body of work by other scholars, lead us to conclude that a distinctive 'alliance postsocialism' is emerging in China.

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