
J.T. Li and Jing Zhong
Hong Kong University of Science and Technology
November 2001

Period of the review: 1986-2001
Key words: China and private firm/ private enterprise/ private sector/ family business/township enterprise/ township firm/rural firm.
Total number of papers: 51
Number of journals cited: 20

Literature Review

We provide a brief review of the management and organization literature related to the private economy in China over the 1986-2001 period. The subject area is relatively new and there are only a limited number of empirical and case studies published in management and organization journals over the study period. We have identified a total of 51 studies on the subject, of which 10 are empirical studies and 6 are case-based studies. We develop the following framework to summarize the key findings from these studies, and offer some suggestions for future research.

Changing institutional environments:
- Government policies
- Legal framework
- Economic liberalization
- Distribution system

Strategies and structures of private firms:
- Strategic orientation
- Entrepreneurship strategy
- Alliances/networking
- Corporate governance

Firm performance:
- Financial performance
- Growth/market share
- Achievement of firm objectives

Inter-organizational relations and social networks:
- Inter-organizational relations with other firms
- Social ties with officials
- Guanxi network

1 This literature review was supported by an Area of Excellence grant on China Business and Management, Hong Kong University of Science and Technology.
Literature on changing institutional environments

A majority of the literature described the changing institutional environments in China to explain the emergence of private enterprises or changes in the private sector. Nee (1992) noted that China's transitional economy is characterized by weak capital market structures, poorly specified property rights, and institutional instability. These characteristics make market exchanges uncertain and costly. Under these circumstances, private companies have difficulty getting capital, because the banks, which are state-owned, favor state-owned companies. Furthermore, in a country with uncertain property rights, there is also the risk of threatening interference and expropriation from party and governmental officials.

Sabin (1994) and Goldstein (1995) examined the impact of government policy changes and economic reform on the growth of the non-state sector. Francis (1996) and Tsang (1994) suggested that economic liberalization and the changes in distribution system affected the nature of work unit system and the relationships between enterprises.

Some research focused on the regional development of the private sector. For example, Liu (1992) and Parries (1993) found that the emergence of private enterprises in Wenzhou reflected local government policies, shifted state-society boundaries, and changing values.

Literature on Inter-organizational relations and social networks

There are two main streams of management and organization research on private firms in China: One stream focuses on private firms’ outside relationships, i.e. network or guanxi, and the other focuses on private firms’ strategies and structures, such as, strategic orientation, competitive advantage, or corporate governance. The literature on the network of private firms examined the general social and economic conditions for network capitalism, the effects of the network on firm performance, and the network importance. Boisot and Child (1996) pointed out that a distinctive institutional form—network capitalism—is given rise in China because of China’s economic order and decentralization of the former state-command system. In the absence of effective state
planning, and given traditional Chinese social organization, such decentralization leads not to markets but to clans and permits the more local and personalized institutional order, i.e. "network capitalism." The Chinese system of network capitalism works through the implicit and fluid dynamic of relationships and long-term trust. The types of sectors include: the non-marketized state-owned sector, the marketized non-private sector, and the marketized private sector. They vary in the extent to which their constituent enterprises engage in market transactions and enjoy autonomy from the state in the exercise of property rights. They share, however, a high level of engagement in transactional networks based on relational contracting and interfirm alliances that involve governmental agencies in approving, supporting, and sometimes initiating roles.

Based on the observations of private businesses in a South China city--Xiamen in 1988-90 and 1995, Wank (1996) illuminated how private businesses expanded through patron-client ties in China's post-Mao market economy. He found that patron-client exchange is also a type of market transaction: although expressed in popularly legitimated sentiments of social trust, goods and services are voluntarily exchanged. They are institutional networks linking entrepreneurs to the bureaucracy that not only stimulate private business but also drive marketization by enhancing resource allocation, creating stable expectations and forging information channels.

Whyte (1995) showed that the family and kinship structure in China was due to China’s social root and the personal connection networks have advantages in providing flexibility that allows family firms to meet changing market demands through subcontracting and similar arrangements without incurring high fixed costs.

Xin and Pearce (1996) held that managers cultivate personal connections as substitutes for structural support, that is, reliable government and an established rule of law. They empirically compared private firms with state-owned enterprises and collectively-hybrid companies in the importance of guanxi to executives and the use of guanxi. The paper has following key findings: Business connections were more important to executives in private companies than to executives in either state-owned or collectively-hybrid companies. Executives in private companies reported more use of their connections to protect against threats than did either collectively-hybrid or state-owned company executives. Managers from privately and collectively owned companies
were more likely to have government connections than executives from state-owned companies. Business relationships of private firms were characterized by greater trust than those of state-owned or collectively-hybrid companies. Executives in private companies were significantly more likely to report giving their business connections nonreciprocated gifts than were the executives of either state-owned or collectively-hybrid companies.

Peng and Luo (2000) differentiated the two types of managerial ties -- ties with officials and ties with other firms. They suggested that in transitional economies ties with officials are more important than ties with managers at other firms because firms may have greater resource dependence on officials than on other firms. Through a contingency perspective, they empirically identified the circumstances under which managerial ties are beneficial to firm performance. Specifically, ties with other firms have little influence on ROA for both SOEs and non-SOEs. Firms that are more likely to benefit from ties with government officials both in terms of market share and ROA are those that are non-SOEs, in the service sector, and small firms.

Zhao and Aram (1995) studied the networking and firm growth in six technology-oriented entrepreneurial firms. Managers in three high-growth firms reported greater range (the number of external relationships for resources) and intensity (the frequency of contact of and amount of resource obtained from these relationships) of business networking than did managers of the three low-growth firms. The study also found that the Chinese entrepreneurs engaged in networking activities that are consistent with the entrepreneurial literature in the West. Networking bears a powerful association with firm growth. It has its greatest impact at the earliest stage of a firm’s development.

**Literature on strategies and structures of private firms**

The studies on the strategies and structures of private companies are rather diverse. Some papers examined the effects of institutional environments on private firms’ strategies and other focused on the effects of private firms’ strategies on firm performance.
Putterman (1995) suggested that gradualism reform was a merit to the role of private property rights and ownership in China. Zapalska (2001) analyzed the economic conditions and barriers to the development of entrepreneurial activities.

Tsang (1996) maintained that the entrepreneurship behavior of private firms was the result of their responses to less-than-legitimate status. Private firms may have four kinds of behaviors: Concealment behavior refers to the covering up of its private identity by a private enterprise, resulting in a higher legitimate status; Private entrepreneurs use co-option strategy to cultivate guanxi, with local government officials; Influence tactics are used to direct toward institutionalized values and beliefs or definitions and criteria of acceptable practices or performance; With the escape strategy, the private firm passively avoids tackling the problem of legitimacy. Instead, it limits the extent of business growth and expansion, in order to avoid heavy losses in the future due to its marginal status.

Fan (1999) examined the characteristics of Chinese peasant entrepreneurship as well as the environment in which it has been shaped. The entrepreneur has strong belief in "the cause," possesses total commitment to the business, is hard working, is determined and a self-achiever, has a strong sense of responsibility, is able to identify and grasp opportunities, is flexible, has the ability to learn and improve him/her self, and is a leader. These entrepreneurial attributes produce a sharp contrast to the stereotype of Chinese peasants, which characterizes them as being, on the one hand, benighted, impoverished, lowly, short-sighted, and conservative; and simple, honest, persevering, thrifty, and industrious on the other.

Tan (2001a, 1998) empirically found that private firms tend to be more innovative, proactive, and risk-taking, in response to the changing regulatory environments. Luo (1999) empirically examined the environment-strategy-performance relations in township and village enterprises (TVEs) in southern China. Environmental complexity and dynamism are positively associated with small firms' innovativeness and proactiveness. Environmental munificence has no significant impact on TVE strategic orientations. The two primary characteristics of prospect, namely innovativeness and proactiveness, are both positively associated with profitability and market position in a significant fashion. Risk-taking, however, is not significantly associated with TVE performance.
Some case studies were conducted to explore a specific entrepreneurial strategy and competitive advantages of private firms (Tan, 2001b; Bruton, Lan and Lu, 2000; Lu, 2000; Tan, 1999). M. Peng (2001) distinguished three kinds of entrepreneurial strategies and Weidenbaum (1996) compared the characteristics of Chinese family enterprises with those of Western firms.

Some studies focused on the effects of private firms’ structures on firm performance. Y. Peng (2001) found that due to the difference in ownership and governance, Chinese township-village outperformed state-owned enterprises in growth rate and productivity. White (1990) empirically found that because of their high autonomy and complex market structure, rural township enterprises enjoyed greater flexibility in management decision than urban enterprises. Wing and Yiu (1996) studied the relationship of firm size and firm growth for Chinese domestic enterprises including SOEs, COEs, and OEs.

**Future Research**

This note provides a brief review of the management and organization literature on private firms in China. The prior research has focused on the changing institutional environments, interorganizational relations and social networks of private firms, the strategies and structures, and effects on firm performance. The review suggests that very limited empirical studies have been done on the subject thus far. Therefore, some future research directions can be suggested as follows:

- Empirical studies examining the relationships between different interorganizational relations and social networks of private firms and firm performance (e.g., financial performance, growth, survival etc.)
- Empirical studies examining the relationships between strategies and structures of private firms and firm performance.
- Empirical studies examining the relationship between interorganizational/social networks and strategies and structures of private firms
- In-depth case studies on the evolution of strategies and structures of private firms and their effects on growth and performance
• Compare studies of privately owned, state-owned, and foreign owned firms in China, focusing on the interactions between changes in institutional environments, interorganizational/social networks, strategies and structures, and firm performance.
### Table 1  Survey of Management Research on Non-state Sector in China

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Private firm</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Business condition (Nee, 1992)</td>
<td></td>
<td>• Business conditions (Ahlstrom, 2000; Francis, 1996; Tsang, 1994; Goldstein, 1995; Parries, 1993; Whyte, 1996)</td>
</tr>
<tr>
<td></td>
<td>• Entrepreneurship (Siu, 1992; Boisot and Liang, 1992)</td>
<td>• Business-government relationship (Blecher, 2001; Kwong, 2000; Oi, 1995; Unger, 1996)</td>
</tr>
<tr>
<td></td>
<td>• Strategic management (Tam, 1992)</td>
<td>• Competitive advantage (Tan, 1999; Lu, 2000;)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Corporate governance (Putteman, 1995; Whyte, 1995;)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Employment (Davis, 1999; Sabin, 1994;)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Entrepreneurship (Tsang, 1996; Wing, 1994; Mike W Peng, 2001; Zapalska, 2001)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Market entry (Wing, 1996)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Network or guanxi (Boisot and Child, 1996; Peng and Luo, 2000; Wank, 1996; Xin and Pearce, 1996; Zhao and Aram, 1995;)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Strategic management (Gu, 1996; Tan, 2001; Weidenbaum, 1996)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Strategic orientation (Tan, 1996; Tan, 1998; Tan, 2001)</td>
</tr>
<tr>
<td><strong>Number of articles</strong></td>
<td>4</td>
<td>32</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>-------------------------------------------------------------</td>
<td>-------------------------------------------------------------</td>
</tr>
<tr>
<td>Township/collective enterprise</td>
<td>• Business condition (Anyansi-Archibong, Chi B. et al, 1989; Liu, 1992;)</td>
<td>• Business condition (Leo, 1999)</td>
</tr>
<tr>
<td></td>
<td>• Entrepreneurship (Chang and MacMillan, 1991)</td>
<td>• Competitive advantage (Bruton, Lan, and Lu 2000)</td>
</tr>
<tr>
<td></td>
<td>• Strategic management (White, 1990)</td>
<td>• Corporate governance (Yusheng Peng, 2001)</td>
</tr>
<tr>
<td></td>
<td>• Wage (Peng, 1992)</td>
<td>• Entrepreneurship (Murphy, 2000)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Gender (Entwisle, 1995)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Growth (Wing and Yiu; 1996)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Strategic management (Fan, 1996; Jiang, 1996)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Strategic orientation (Luo, 1998; Luo, 1999)</td>
</tr>
</tbody>
</table>

**Number of articles**  
5  
10  
**Total**  
51
Bibliography of China-related research on private sector: 1986-2001


Blecher, Marc and Shue, Vivienne. 2001. Into leather: State-led development and the private sector in Xinji. *The China Quarterly* 166: 368-


