



BOOK REVIEWS

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Business Strategies in Transition Economies, by Michael W. Peng. Thousand Oaks, CA: Sage, 2000.

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Peng starts the first chapter of his book with a quote from Sun Tzu, the ancient Chinese military strategist who lived approximately 500 B.C.: "Know your self, know your opponents; encounter a hundred battles, win a hundred victories." Only after almost finishing reading the book did I realize that this is probably how Peng intended his book to help its readers. Despite the title, the bulk of the book presents an analysis of the relations between the unique institutions of the transition economies (TEs) and the behaviors of firms that operate in those economies. This analysis, in my assessment, is particularly helpful to business executives (especially those based in industrialized market economies) seeking an in-depth understanding of their potential competitors, collaborators, suppliers, and customers from TEs.

In the first chapter Peng sets an ambitious goal for the rest of the book—to seek answers in the context of TEs to the five fundamental questions that Rumelt, Schendel, and Teece (1994) raised for the strategy field: (1) Why do firms differ? (2) How do firms behave? (3) How are strategy outcomes affected by strategy processes? (4) What determines the scope of the firm? (5) What determines the international success and failure of firms? Toward the end of this review, I evaluate how Peng has performed in tackling these questions.

The second chapter provides an overview of the motivations, processes, and outcomes of the reforms the more than two dozen formerly planned economies in Europe and Asia have undertaken in the last twenty years. Although only a little over twenty pages, the review is

thorough, systematic, and especially informative for those who have not closely followed the growing body of work on the transformations of those economies. Particularly noteworthy in the chapter is Peng's penetrating contrast of the "big bang" approach (taken by such countries as the Czech Republic, Poland, and Russia) with the "gradualist" approach (taken by such countries as China and Vietnam) to economic reform. I just wish that in subsequent chapters Peng had expanded on this contrast and explored the implications of the different reform policies for firm behavior and strategy.

The basic theoretical framework Peng applies to the analysis of firm behavior and strategy in TEs is laid out in the third chapter. His framework is, for the most part, rooted in the theories of the new institutional economics. Although Peng asserts that the interactions among institutions, organizations, and strategic choices of firms are examined in the framework, my interpretation of his analysis is primarily to explain how institutions influence the behaviors of firms. The focus on the influence of institutions, which I find to be fully justified, is reflected in the analyses of both this chapter and subsequent chapters. For instance, he argues in this chapter that the weak property rights regime, the lack of a stable political structure, and the absence of strategic factor markets in TEs tend to encourage indigenous firms to adopt the strategy of building interfirm networks, rather than that of internal expansion or acquisition. The analyses of the ensuing three chapters are primarily concerned with how the behaviors of the different types of indigenous firms are influenced by the institutions under which they operate and the internal organizational mechanisms they have inherited from their past.

In the fourth through sixth chapters, Peng's attention turns to three major types of indigenous firms in TEs: state-owned enterprises (SOEs), privatized or reformed firms (i.e., former SOEs), and entrepreneurial start-ups. In the

chapter on SOEs, Peng first examines traditional SOEs, as well as partially reformed SOEs, using the currently dominant Western theories of the firm—that is, the neoclassical theory, the contractual and property rights theories, and the resource-based view. Peng's use of these theoretical lenses to analyze the traditional SOE may appear a little puzzling at first, since the traditional SOE is based on entirely different assumptions from the assumptions of these theoretical perspectives. In the meantime, this exercise does seem to help one develop a clear understanding of the motives and methods for reforming the SOEs and of the SOEs' struggle for survival in the altered institutional environment. The four SOE strategies discussed in this chapter tend to reflect government mandates for economic reform (e.g., instilling the profit motive and strengthening property rights) more than firm choices of competitive strategies, even though the demarcation between the firm and the government is not always clear in an SOE.

In the chapter on privatized former SOEs, Peng cleverly links the methods with which the firms were privatized (e.g., employee or management buyouts, vouchers, and auctions to domestic and foreign investors) to the behavioral tendencies of the firms. Here, Peng uses a variety of theories developed in financial economics, business strategy, and organizational studies to predict how ownership and control structures may influence the behavioral patterns and strategic choices of privatized firms in TEs. The theory-based analysis is a clear strength of the chapter; the highly structured discussion, however, does leave one desiring greater empirical detail, especially regarding the divergent experiences of the different countries with the same class of ownership and control structures. For instance, the dominance of financial "oligarchs" in Russia may cause investor-controlled firms there to behave quite differently than investor-controlled firms in the Czech Republic or Poland. In addition, the former Yugoslavia also had an extensive experience with employee-controlled firms under Tito and his successors; it would be interesting to contrast the Yugoslav experience with the more recent experiences of the other TEs.

In the chapter on entrepreneurial firms, Peng adopts a multidisciplinary approach to explaining the behaviors and strategies of these firms. The institutional perspective is used to under-

stand the socioeconomic conditions that lead to the emergence of these firms, and a behavioral science-oriented perspective is used to understand the personal attributes and behavioral tendencies of their owners. Peng identifies four major types of entrepreneurs (i.e., farmers, "gray" individuals, former bureaucrats, and professionals) and examines three growth strategies that they tend to adopt (i.e., prospecting, networking, and boundary blurring). In contrast to the previous two chapters, in this chapter Peng traces the firms' strategic choices more to the managerial and technological skills of the firms and their owners than to their institutional constraints and endowments. I find that this chapter offers a particularly informative assessment of the various types of entrepreneurial firms in TEs (i.e., their strengths and weaknesses).

Foreign firms that are either exporting to or investing in TEs are the last type of firms examined in the book. Peng's analysis in this chapter blends the conventional analysis of market entry strategies (export, strategic alliances, and wholly owned subsidiaries) with an option perspective on the management of a firm's expansion in a TE. I find the exposition of the "option chain" strategy to contain the most fresh and important insights. This chapter also shows a marked shift of the underlying theoretical framework from the institutional perspective to the more traditional perspectives of international business and strategy. Although such a shift is justified on the grounds that most of the foreign firms are based in industrialized market economies and, thus, face the same type of institutional environment at home, one could still derive valuable insights from examining how differences in institutions among the various TEs affect the strategic choices of foreign firms. The divergent approaches to economic reform (i.e., the big bang and gradualist approaches), for instance, have produced some marked institutional differences among the TEs. A question that deserves more attention than Peng provides in this book is how these institutional differences influence the strategies of foreign firms that do business in TEs.

In the last chapter Peng summarizes the book, lays out an agenda for research on firm strategies in TEs, and also offers some advice for firms competing in those economies. The research agenda that Peng lays out contains some serious messages, the most important being his call

for strategy scholars to integrate the institutional perspective into their research. Peng has certainly done some careful work in applying this perspective to the study of firms based in TEs. An even more challenging and more exciting area for future research along this line is perhaps to investigate the combined influences of home and host institutions on the behaviors and strategies of multinational corporations. The brief summary of the book's practical implications in this chapter (about four pages) also offers some insightful advice for business executives.

How has Peng performed in tackling the five fundamental questions raised in the first chapter? I think the most successful part of the book can be found in Peng's use of the institutional perspective to explain the variation in behavioral patterns among the major types of indigenous firms in TEs. Although an understanding of the broad institutional settings can shed light on the decision processes of those firms, one would probably need more intimate knowledge of their decision processes to fully uncover how their strategy processes affect the outcomes. I find Peng's examination of the scope of TE-based firms to be illuminating, especially his discussion of the prospects for conglomerate firms in China and Russia. The issue to which Peng has given the least attention is what factors determine a firm's performance in TEs. Peng's discussion is limited to foreign firms, and he only explores how the firm-specific, location-based, internalization advantages tend to influence the performance of these firms (Dunning, 1995). I believe that it is feasible to develop a theoretical framework for understanding the performance of indigenous firms based on their technological and institutional endowments and their strategies for acquiring and renewing these resources.

In summary, the book can serve as a valuable resource not only for business practitioners but also for teachers and researchers. For practitioners, it presents an overview of the institutional environment of TEs and a thorough analysis of behavioral patterns of the major types of firms based in those countries. For teachers, it can serve as a primary or supplementary textbook for a course on business in TEs. For researchers, it provides a refreshing overview of current research on TEs and demonstrates how

strategy scholars can benefit from incorporating the institutional perspective in their research.

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***China's Leap into the Information Age: Innovation and Organization in the Computer Industry*, by Qiwen Lu. Oxford: Oxford University Press, 2000.**

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Guided by two basic theoretical underpinnings—namely, a top-down model of technological learning and institutional arrangements of enterprise governance—Professor Qiwen Lu conducted in-depth case studies of four leading competitors in the Chinese information technology (IT) industry. This book presents the key results of this study. The six chapters cover an introduction of the research setting and basic theoretical model, four in-depth case studies, and major findings and contributions. In the review below I first describe the basic content of the book and then provide an evaluation of the findings and contribution.

Explaining the remarkable success of domestic computer firms, despite the onslaught of powerful multinationals jockeying for position in the Chinese computer marketplace, served as the impetus for Professor Lu's dissertation research and, subsequently, the broader study reported in this book. In Chapter 1 Lu describes the Chinese computer industry and indigenous computer technology innovations developed during the central planning era, and he presents basic theoretical elements guiding this study. For the mode of technological learning, the author proposes a top-down mode or innovative mode of technological learning. Employing this mode, firms would start with product design or redesign and then go forward or backward to transfer technologies at other levels, as opposed