



CREaTE

Canterbury Research and Theses Environment

Canterbury Christ Church University's repository of research outputs

<http://create.canterbury.ac.uk>

Please cite this publication as follows:

Zheng, P. and Scase, R. (2012) The restructuring of market socialism: the contribution of an 'agency' theoretical perspective. *Thunderbird: International Business Review*, 55 (1). pp. 103-114. ISSN 1520-6874.

Link to official URL (if available):

<http://dx.doi.org/10.1002/tie.21526>

This version is made available in accordance with publishers' policies. All material made available by CReaTE is protected by intellectual property law, including copyright law. Any use made of the contents should comply with the relevant law.

Contact: create.library@canterbury.ac.uk



**The Restructuring of Market Socialism in China:
the contribution of an “Agency” theoretical perspective**

Dr. Ping Zheng

Canterbury Christ Church University

Email: ping.zheng@canterbury.ac.uk

Prof. Richard Scase

University of Kent

Email: r.scase@kent.ac.uk

ABSTRACT

Most discussions of the development of market socialism in China adopt an ‘institutional approach’ in which socio-economic and political organizations are described as a complex set of arrangements determined by the policies and role of the Communist Party. Such institutions are often seen to be little more than passive forces responding to the imperatives and stipulations of the Party. However the character and continuing development of market socialism is far more complex than this. It is made up of inter-acting forces that are the outcome of the purposive actions of economic agents that, although created and nurtured by the Party, create tensions within the socio-economic structure and thereby shape the direction of societal change. It is these that constitute many of the defining characteristics of market socialism. There is, the tensions between the imperatives of an emerging market economy and the political imperatives of the Party. But there are others that are determined by the goals and values of a diversity of agents within both the state-owned and privately-owned sectors of the economy. For an understanding of these, we argue in this paper for the need to adopt an ‘agency approach’; that is, one that focuses upon the key roles of actors and agencies, in shaping institutional arrangements of the sort that constitute present-day market socialism. This, we argue, does not displace an ‘institutional’ theoretical perspective but compliments it thereby offers a more complete insight into the generic character of a socio-economic structure; in this case, Chinese market socialism.

INTRODUCTION

The role of agency in the diversification of institutional change has not been sufficiently researched as much institutional research focuses on the relative stability of organizational practices over time (Burns and Scapens, 2000) and emphasizes the development of institutional environments in terms of socioeconomic frameworks of rules, routines, conventions and normative pressures (Scott, 1987; Oliver, 1996; Hoffman, 1999). At the centre of institutional theory, there is a focus upon how various groups and organizations consolidate their positions and legitimacy by conforming to the rules and norms of the dominant institutional order (Meyer & Rowan, 1977; Scott, 2007). Early neo-institutionalism studies emphasize how patterns of action and organization are shaped by institutions rather than by actors and purposive action and as such, this fails to explain explicitly the interplay of agents and organizational agency (DiMaggio, 1988; DiMaggio and Powell, 1983; Battilana, 2006). The concept of “agency” is originated from the field of sociology of which has mainly focused on the interaction between agency/individuals and institutional orders in shaping social orders (see Lukes, 1973; Coleman, 1986; Alexander, 1992). The increasing attention to the agency perspective lies with the dissatisfaction with theories that venerate the influence of institutional arrangements but downplay the role of individual/organizational actors in reshuffling social-economic and political orders. As Emirbayer and Mische (1998) have suggested, variants of action theory, management theory and political-institutional analysis have resuscitated the role of agency in often contradictory and ambiguous ways. This is particular the case in emerging economies in which both revolutionary and evolutionary changes take place. Actors are able to intentionally create new institutions and also effect societal-level changes (Garud et al, 2002; Seo and Creed, 2002; Battilana, 2006). However, the literature lacks detailed examinations of the critical roles of organizational actors in the process of institutional evolution in countries such as China (Ahlstrom and Bruton, 2010). The interplay of key actors within institutional orders is central to a better understanding of the forces of economic and social change (Lamberg and Pajunen, 2010).

China’s transition to a state-controlled market economy is based on the liberalization of market relations by a major agency; the Communist Party. This has chosen to develop market socialism through developing a number of key agencies of social and economic transformation. It has focused

upon sponsoring four key agencies of change. These are restructured state-owned enterprises; the encouragement of foreign-owned joint ventures; the development of local-government controlled cooperative-owned enterprises and the growth of independent entrepreneurial firms or privately-owned enterprises. Key actors within these agencies have access to resources and sources of influence that enable them to engage in institutional change shaping the specific characteristics of market socialism in China (Battilana, 2006; Burns and Nielsen, 2006). Under market socialism, access to government resources is determined by types of institutional ownership since government policies and institutional arrangements are particularly tailored to these different types of business form (Yang, 2002, 2004; Tan, 2002). Each of these ventures' ownership characteristics is shaped by the institutional features of China's market socialism, which in turn are agencies of transformation in developing the key features of this same economy as a distinctive socio-economic and political regime.

Capitalism takes many forms (Boyer, 2007). The capital accumulation process as shaped by the actions and behavior of economic agents – that is, institutions and individuals – is conditioned by a variety of socio-economic and political settings and constraints which, themselves, are the outcome of historical legacies, cultures, conflicts, etc (North, 1990; Redding and Witt, 2009). The development of market socialism in China, albeit based upon the inherent logic of the accumulation process, is characterized by economic agents and institutions that are specific to this form of socio-economic and political organization. Since 1978, Chinese Communist Party as the dominant agency of societal change has embarked upon economic reforms that primarily aim to improve economic efficiency and this has led China to a hybrid form of 'market socialism'. By permitting the partial divestiture and privatization of a majority of state and cooperative-owned enterprises as part of the process of institutional development (Sheehan et al, 2000; Peng et al, 2004), as well as encouraging the growth of entrepreneurship and the introduction of foreign-owned joint ventures, the Communist Party has created a quasi-competitive market environment involving a variety of players (Liu and Garino, 2001; Jefferson et al, 2003; Liu and Woo, 2001; Child and Tse, 2001). Hence, the economic landscape in China features substantially more organizational diversity than a simply dichotomy between public and private ownership (Peng, 2003; Tan, 2002). The institutional ramification of communist-led socialist market economic reforms is that political power is firmly monopolized by the Communist Party and

that the legal infrastructure of a 'free' market remains underdeveloped (Li and Xia, 2008). This distinctive model of market socialism combining both highly concentrated political control system and an emerging market economy has puzzled many western scholars because, conceptually, 'dictatorial socialism' and 'free capitalism' seem to be fundamentally contradictory and impossible to co-exist. We contend that the distinctiveness of 'market socialism' cannot be understood merely by explaining institutional environment or normative settings, but rather it is the reflection and constitution of the specificities of actions by various different economic agents, of which state-owned enterprises, entrepreneurial firms, foreign joint ventures and employee-owned cooperatives are the more significant.

Many studies have emphasized that organizational and individual actors embedded in the multi-levels of incompatible institutional arrangements, can become active change agents that drive institutional change (see Seo and Creed, 2002; Scott, 2002; Garud et al, 2002; Burns and Nielsen, 2006; Kshetri, 2007; Puffer et al, 2010). Seo and Creed (2002) argue that the need for institutional change grows out of core sources of institutional contradictions – the conflicts between the existing social arrangements and the interests and needs of actors that inhabit these very arrangements. In their notion, those who arise as change agents are likely to be the groups that are dissatisfied with how their interests are accommodated within institutions and, as such, become potential forces for initiating institutional change. Garud et al (2002, 2007) also suggest that organizational fields are characterized by dominant and peripheral actors, who can act as institutional change agents because they collectively experience tensions arising from contradictions in a given socio-historical context (Benson, 1977). This body of literature focuses almost entirely on entrepreneurs as the main agent of change agents that are capable of mobilizing resources to create new institutions or transforming existing ones. These institutional entrepreneurs are keen on exploiting opportunities and structural holes to reframe new social arrangements for their own specific interests (Fligstein, 1997; Yang, 2002; Dorado, 2005; Kshetri, 2007; Kalantaridis, 2007; Purdy and Gray, 2009;). However, this perspective seems only to provide a partial view of understanding institutional change associated with the development of market socialism in China. Other dominant economic agents in different organizational fields also impact upon institutional changes and interplay within this evolving process of societal transformation.

Emirbayer and Mische (1998) state that “*It only will be clear how the structural environments of action are both sustained by and also altered through the agency – by actors capable of formulating projects for the future and realizing them, even if only in small part, and with unforeseen outcomes, in the present.*” They emphasize the need for an integrated view combining ‘the double constitution of structure and agency’. The actors of different structural environments interactively respond to the emergent problems posed by changing historical, political, social and economic situations. These orientations and actions towards emergent situations - whether they are ‘deliberate’ or ‘improvised’ (Baker et al, 2003; Baker and Nelson, 2005) - are an important force of institutional change. In this paper, we attempt to demonstrate how this agency perspective, in analyzing the interactive role of different actors and agencies, is creating a specific type of market socialism in China.

METHOD

We demonstrate the relevance of this perspective by referring to empirical data collected in a longitudinal research of case study organizations in China. Only through case studies is it possible to gain insights into organizational processes and within these, the role of agencies and actions (Bennett and Elman, 2006). Four case studies were chosen, each selected to represent the four key agencies shaping the future development of market socialism. These were state-owned enterprises; foreign-owned joint ventures; entrepreneurial firms; and employee-owned cooperatives. These were studied over a five year period (2006-2010). Over fifty open-ended interviews were undertaken with key stakeholders together with the detailed analysis of company documents and decision-making records. In addition, a number of government officials in the relevant ministries were interviewed to explore interplay of government policies and these economic change agents.^[1]

DISCUSSION

Our discussion, based on empirical data collected from four case study organisations, illuminates how the restructuring of market socialism in China has distinctive outcomes for the emergence and characteristics of different types of enterprise agency. These, in turn, as distinctive types of organization act as agencies for social and economic transformation reshaping the specific

characteristics of market socialism. Each of these agencies can only be understood by reference to the specificities of the socio-economic and political framework of market socialism in China (Nee and Opper, 2010; Child and Tse, 2001). Each organizational actor with its own dynamics and inherent tensions is shaped by market demand on the one hand and the legacy and the continuing controls executed by a centralized “command” of Communist Party as the dominant agency of change on the other. As economic reforms deepen, the Communist Party has placed the priority on attracting foreign direct investment and aiding the transformation of state-owned enterprises as the means for creating a semi-liberalized market economy. In contrast, privately-owned enterprises and employee-owned cooperatives have been treated as peripheral actors in terms of institutional support. According to the four case study companies, orientations vary to change in each of these types of enterprise. Privately-owned entrepreneurial firms and foreign joint ventures are characterized with a high potential for societal transformation and change. While state-owned enterprises and employee-owned cooperatives, as legacies of a previous social structure reflect tensions associate with the forces of a market economy on the one hand and state commands on the other.

THE ROLE OF STATE-OWNED ENTERPRISES AS AGENTS OF CHANGE

State-owned enterprises are highly policy-led and characterized as reactive to restructuring demands as they are inclined to conform with institutional arrangements. Their resource-focused competitive advantage is build upon on a grant-aided policy (Hassard et al, 2010). They have enjoyed privileged access to state bank finance. Mergers and acquisitions are taking place between medium to large SOEs across sectors, which enable diverse state-owned businesses to agglomerate to form larger industrial clusters. Such a strategy is creating quasi-monopoly industries that dominate vital sectors of the Chinese economy, such as, for example, telecom and real estate sectors. This is possible under market socialism because of the Party’s control as it is exercised over state-owned enterprises. However, this stringent political control also creates acute tensions between free market forces and government supervision systems; bearing in mind the primary objective of reforms in the state sector is to transform state-owned enterprises into market-oriented modern corporations. Our case study demonstrated the tensions that are created through the conflicting demands of Party political authority

and market demands. To a large extent, this is due to the fact that most of the old governance relations between the Party and state-owned enterprises remain intact and are merely reloaded upon the new forms of corporate structure. For instance, closed recruitment systems, risk-avoidance attitudes, bureaucracy and contradictory political and economic priorities seriously impede upon management market-driven efficiency. As the Director of Planning Department in this state-owned enterprise comments;

“The recruitment system is backward although it is explicitly established for market-orientation. There is an underlying way of doing things in state-owned enterprises, especially in personnel issues. The company has not opened-up recruitment although autonomy was delegated to the enterprise since 1994. Most of the staff in the company have personal relations with someone in either senior management or in the upper authorities of Government.”

A divisional manager in this state-owned enterprise, stated;

“It is like an organism without fresh blood. The people being hired in the enterprise in the past ten years have all been through personal connections with ties to provincial authorities and top management. Many of them are the children of these officials and political leaders. They are hired because of their contacts not for qualification. I worry about this enterprise because it will die in the absence of talent in the future.”

As a senior manager told;

“From the Provincial authorities to the top of management in the company, they all have preference for ‘No-Mistakes’ rather than ‘High-performance’. Because they are more bureaucrats than entrepreneurs; ‘no-mistakes’ secure their positions, whereas ‘high-performance’ requires both high risk-taking and high capability to handle risks. If they fail to achieve, this will lead to their dismissal from their power positions. The safe way is to sustain the stability and avoid risking their careers, so they can retain a good personal record when they move to the next higher position. What can you expect from this kind of boss in an enterprise? To follow this style and approach is also safe for us. Otherwise they will think we

are trouble makers, and sooner or later we will be eliminated from their sight. This is the common reality of state-owned enterprises.

The Party Secretary said in an interview;

“We still have not established the appropriate mechanisms in relation to the market. The old management systems in conjunction with the State administration still remain the same. If you ask the former Party Secretary, who was in the post at the company from 1987 to 2004, you would find that the current structure of the company is quiet similar to what it was before. There is so much uncertainty and confusion in many of the guiding policies from the Central Authority. As an enterprise, we are still waiting for how to move to the next step in structural reforms. My personal opinions need to be in concordance with Central Authority, but we now wait for new instructions. The state-owned enterprise is not very flexible like privately-owned enterprises, as there are many restrictions on our operations and management.”

This common reality deeply affects the style of management in state-owned enterprises and it destroys ambitions and entrepreneurial willingness among employees. It also restricts the innovation and explains why staff motivation is low in this case study company. A Divisional Manager stressed;

“The guiding line for our business development is directed by steady growth, and not a hasty rush to the market. We are gradually evolving from structural change, but not significantly innovative in management and technology. The top management emphasis is on current profits rather than long-term investment, as it is a crucial requirement of ‘State Assets Supervision and Administration Commission’ (SASAC). Top managers spend most of their time with higher political authorities. As I know, our general manager has to drive four hours to Shenyang three times a week for meetings and reports. They are not like us; they are more bureaucratic than enterprise managers.”

Firms that have a ‘socialist imprinting’ are less able to change their operating knowledge and are less responsive to external changes (Newman, 2000). This considerably affects the motivation of the managers, leads to confusions and the inhibition of an entrepreneurial orientation for change. Such tensions pose major challenges to how effective reforms in the management of state-owned enterprises

can be achieved. How long can restructured state-owned enterprises rely upon extensive government support in the future? The imperative for state-owned enterprises will be to apply rationalist management systems and learn from large capitalist corporations in other countries. At present, they reflect the inherent tensions between institutions operating under the imperatives of both market rationality and communist party commands, creating inherent corporations in the values and institutions of market socialism.

THE ROLE OF FOREIGN-OWNED JOINT VENTURES AS AGENTS OF CHANGE

Foreign joint ventures are highly policy-led as government policies have deliberately attempted to attract foreign direct investment in China. Since 1979, the “Incorporation in Law of Sino Joint Ventures” (Zhongwai Hezi Qiye Fa) marked the turning point in encouraging FDI in China (Chen et al, 2008:288). The main focus of this strategy was to obtain advanced technology and to acquire modern management experience from foreign companies in order to enhance the competitiveness of indigenous firms (Yu, 2004; Jiang, 2006). The old strategy of import substitution for China’s industrial development was then replaced by an export-oriented strategy driven by liberalization of market relations and foreign direct investment. The Party granted a series of privileges and treatments to attract FDI since 1979 and this has been a significant push in the growth of China’s market economy (Tung and Cho, 2001; Lau and Bruton, 2008). Thus, foreign-owned joint ventures are a significant constituent of market socialism. Their interactions with government agencies and institutions contribute to the specific characteristics of Chinese market socialism. At an early stage of market reforms (before 1997), because of government policies and restrictions 100 percent-owned foreign companies, sino-foreign joint ventures were the dominant option for foreign entry into the Chinese market (Davison, 1987). It is only since 1997, that wholly-owned foreign companies have been allowed to enter the market place. Our case study of a foreign-owned joint venture demonstrates how, by combining local management knowledge with western expertise, these organizations are key drivers of market transformation. As the President in our case study stated;

“We all know that the Chinese market is filled with opportunities; it is just a matter of how you can catch and secure them. You can earn a fortune from the growth of the market

economy if you know on which side your bread is buttered. Foreigners see the opportunities but they don't know how to secure them and they don't have know-how in local practices. China has a complex business environment with a discrete market infrastructure. The legal framework in this market is not the same as in the West and the absence of market laws is a matter of fact. Personal relationships and business networks and nepotism are key values of the business culture. The opportunity cost is high for exploring the Chinese market. Thus we adopt a localized strategy for the operation by forming a partnership between American investors and overseas Chinese managers. The investment from America is not only important in sharing the high economic cost but also the American venture adds brand value. In addition, a foreign joint venture company can enjoy tax holidays and benefits and gain supportive policies from the government.”

Building ‘home brands’ is appealing for domestic enterprises, but in fact is a strategy dominated by foreign-owned joint ventures. By applying ‘learning from the West’, they implement innovative practices in the Chinese marketplace through intensive staff training. Through this means, foreign-owned joint ventures are able to develop core competences at the forefront in the marketplace. They are proactive in developing market-oriented strategies and attempting to build cutting edge advantages. They try to insulate themselves as possible from political controls and in doing this, they also attempt to develop their own talent pools to create western-style management focused efficient business corporations. As the General Manager stated;

“We need to find better solutions to motivate and train the middle management. Currently this is the most challenging task for our company, as we are struggling with a shortage of capable managers. Our concepts and ideas need to be executed by capable staff, but we can't find enough of them. It is not easy to find skilled managers on the Chinese labour market, thus we have been trying to train potential employees from internal promotion. However, re-education and training are a tough task for us, as often they still can't reach the skill level as we expected. This problem has restricted our expansion strategy.”

The President added;

“In 2009, we adopted a franchise model to expand our branded women fashion wears and invested over one million dollars to set up a franchise centre in Beijing to manage this project. However, we have not been very successful on this new move, as we have been struggling to get highly-skilled marketing managers and creative designers. Even in Beijing and Shanghai, these major cities, we still find the difficulty to recruit capable employees. We are considering to use expatriates but it may be a problem of localization and adaptation.”

Foreign-owned joint ventures are major employers in China and as a result, their employment policies and practices have a strong bearing on reshaping the pool of human resources and the experience of work for a significant proportion of workers in China (Cooke, 2004). They are often regarded as ‘best practice’ to benchmark. Furthermore, foreign joint ventures are the dominant force of the non-state economic sector because of their capabilities based as these are upon a combination of local skills and knowledge with foreign-imported technologies and advanced management practices. This gives them competitive edge and enables them to position themselves on the high end of the industry chain. They are proactive in responding to market demands because of their creative and deliberative attempts to be at the forefront of market threads. It remains to be seen if this will continue to be the case in the future as the development of indigenous managerial, technological and scientific skills reduces the need for the Chinese economy to be dependent upon the import of these skills. At present, the state and foreign joint-ventures have a symbiotic relationship; they are dependent upon each other for the pursuit of their own separate objectives and agendas. The outcome is market socialism consisting of a dialogue and accommodation between western capitalist corporations and a growth-oriented Communist Party. Perhaps their key role as agents of change is the creation of strata of employable knowledge workers that constitute an urban, globally integrated middle class that could in the future challenge the legitimacy of the dominant Communist Party.

THE ROLE OF PRIVATELY-OWNED ENTREPRENEURIAL FIRMS AS AGENTS OF CHANGE

Entrepreneurial firms have grown out of the institutional holes or structural gaps of before the 1980s. With reform policies, entrepreneurial firms have rapidly grown under the shadow of the state economic sector. Despite Party policies that give little economic support (Yang, 2002; Kshetri, 2007), privately-owned enterprises have demonstrated considerable initiatives in pursuing and securing opportunities under institutional constraints. Due to the fact that government policies still heavily favour state-owned enterprises, indigenous entrepreneurial firms are forced to cluster in low-value and low-cost-based manufacturing sectors. They suffer restricted access to financial resources since the state-owned banking sector is reluctant to lend to them. Although they share many characteristics of entrepreneurial counterparts in the west, the dynamics of market socialism compels them to occupy ‘niches’ in the market not catered for by other types of enterprise. They are regarded by both the state and other market actors as marginal or peripheral to the future development of market socialism. Emirbayer and Mische (1998) suggest that “*actors who feel blocked in encountering problematic situations can actually be pioneers in exploring and reconstructing contexts of actions.*” Our case study demonstrates this; this enterprise utilizes networks of business contacts for overcoming institutional constraints and capitalizing on political connections for securing opportunities. As the owner entrepreneur in our case study commented;

“In 2008, one day I got a phone call from a friend and noticed that a state-owned enterprise was called for bid of sale in Xiuyuan city. After my investigation in this project, I decided to acquire this company. However, the first difficulty I need to overcome to secure this deal is to obtain the capital required as it demands roughly speaking 50 million RMB (USD\$7.4 million) but I only had less than one tenth of this amount in my account at that time. Many others may have thought it was impossible for me, but I managed to obtain this large amount of capital from a variety of sources – friends, business partners, private venture capital companies and state banks through my business networks and personal contacts. The majority is from private loans with high interest rates and short term as banks can only loan me the small amount with collateral. Despite high risks and financial pressure, I still determined to invest in this new factory because I can see the opportunity of increasing demand in the future. With my expertise and experience in this field, I believe

this investment will have profitable return, and it will also give me more control over raw material supply markets and minimize the cost of my finished cashmere goods.”

This entrepreneur seems never to be satisfied with his achievements and always strives for new opportunities. This quality gives the entrepreneurial firm a competitive edge in the market. Private entrepreneurs in China are now elected to the National People’s Congress (NPC) and have gained a legitimacy to participate in government circles. The owner of this private-owned enterprise has been elected as a representative to the National People’s Congress in the region since 2007. This new identity and status has granted him many benefits, such as easier access to loans, political capital, credibility and networks for negotiating favourable policies from local and provincial Party officials. As his business partner as well as a friend, another entrepreneur comments:

“He has good relationship with local government officials and close network connections in this industry. The National People’s Congress representative identity has made him a ‘red-hat’ businessman (hong ding shang ren), which granted him with the privilege access to political capital. Having a seat in National People’s Congress meetings, meant that he can have his say in policy making for SMEs and be the first to grasp the policy movement. This also gives him credibility among other private businesses. He is very low key as a person but highly influential and capable of almost impossible missions. He has become our access to political guanxi when we need it. We admire his tactic and ability.”

Despite government policies and the Party’s changing attitude towards private entrepreneurs, there are still discrepancies between policies and actual implementation; for example, suspicions toward entrepreneurs still pertain among some state bank officials (Kshetri, 2007; Yang, 2002). This requires entrepreneurs to make informal arrangements and negotiations, sometimes power exchanges – so called ‘rent seeking’ activities to achieve their interests (Su and Littlefield, 2001; Gao, 2011; Chen et al, 2011). The emergence of private ownership is one of major significance in the development of market socialism in China, since it not only represents a force for contributing to the country’s economic growth but also as a change agency for restructuring the economy. In a turbulent and changing marketplace, it is not surprising that many such entrepreneurs have emerged as a new class of plutocrats and business magnates. Their entrepreneurial ingenuity has led to their pursuing and

securing business opportunities. Their enterprises are in a sharp contrast to state-owned enterprises on every organizational dimension. They are innovative, willing to take calculative risks and utilize tactics and networks to gain access to resources and achieve results. Their growth has placed demands on new institutional arrangements and new laws to legitimate their rights. It is in accordance with their increasing demands, The Communist Party has gradually developed policies and regulations for this sector. In the 2000s state policies toward private businesses were further liberalized. On 1st July 2001, the President (Jiang Zeming) stipulated that the Communist Party should be representative of all social productive forces, including entrepreneurs (Xinhua News, 2001). This marked a milestone in the Party's political policies toward private companies. In June 2002, the National People's Congress passed legislation stipulating the state should provide positive services for small and medium-size enterprises in financial and fiscal assistance, start-up capital, taxation, technological innovation, the development of markets, and employee welfare services. In March 2003, the government approved constitutional amendments including the recognition of private entrepreneurs as "socialist builders" (Chen et al, 2008). It also gave protection of legal rights of private property ownership. These amendments have given entrepreneurs the assurance that the State accepts their legitimate role in the economy.

Entrepreneurial firms are positioned as peripheral actors in Chinese market socialism. However, entrepreneurs act as institutional change agents since they are extremely adaptive and flexible; their pursuit for new opportunities and collective actions for achieving their own interests have created unintended consequences for the development of market socialism in China. These range from the development of 'corrupt' underground economic practices through to their contribution to dynamic economic growth; as such, they are key agents of institutional change and societal transformation.

THE ROLE OF COOPERATIVE-OWNED ENTERPRISES

These are literally owned by employees but de facto controlled by local authorities. They generally lack government policy support since they are regarded as a secondary component of the state sector and do not benefit from policy aid in the same way as state-owned enterprises. They have ambiguous property ownership rights and remain peculiar off-shoots of the socialist planned economy. The

reforms in the 1990s were attempts to resolve issues of whether they were owned by local authorities or by employees (Chen et al, 2008; Sanders and Chen, 2005; Yano and Shiraishi, 2004). In the transition process, they have become a 'mixture' of private investment ventures and socialist-inspired cooperative organisations (Wang and Han, 2008). As economic reforms deepen, their significance is in decline. Attempts to inject private finance merely exaggerates the tensions between "socialist" and "market" ideals. Profit-making oriented private entrepreneurs in these cooperatives are only motivated to exploit state-owned assets and labour. Their hybrid form combines the exploitation of the private owner with the bureaucracy and dogmas of local government. As such they have none of the positive features of state-owned enterprises (e.g. employee welfare and job security), nor the ethics and flexibility of entrepreneurial firms. Instead, they often emphasize dictatorship, authority and bureaucracy. Capital accumulation through ruthless cost minimization is strongly emphasized in this type of business venture. In our own case study, the Operations Manager commented;

"Less staff and more work is our situation. The production tasks are very demanding each year, particularly as delivery times are always very tight. We often have to work over time but no pay for extra hours. Even for weekends, we only get two Sundays off in each month. Working longer hours becomes our obligation."

As evidenced in this case study, private and local government ownership in a joint form gives rise to capitalist exploitation and absent business ethics. The objectives of the two owner parties and their entrenched controls over resources seem to be the reasons for this outcome. The private owner tends to use network and 'guanxi' to obtain more resources needed, but local government is reluctant to financially support this action. As the President commented;

"We have planned to build a new factory with production capacity of few millions pieces of cloth and over one thousand employees in the next year since we received increasing orders from Korean markets. However, we have two barriers to implement this plan, the first is to obtain government approval on the land and second is to get bank loans of RMB35 million yuan (USD\$5million). Through our personal contacts, we are likely to obtain the approval by the end of this year. However, the loan is currently a major issue, because local partner is reluctant to use fix assets as collateral."

Market reforms have changed the ownership form of traditional cooperative-owned enterprises as privatization has become incorporated within them. However, these employee-owned enterprises have a heritage of strong ‘socialist cultures’ that value workers’ rights and their welfare benefits. There is often worker resistance to privatization policies as these are seen to challenge existing ‘socialist’ benefits. Such collision has torn managers’ orientation to change and generated acute resistance from employees. Such cooperatives represent a failed attempt to integrate capitalism and socialism in a single organizational form. This type of ownership is likely to wither with the further development of market socialism. It is possible that a move to full privatization could be a solution to this tension and as such, cooperatives – through the resolution of tensions, will cease to be key agents in the future development of market socialism.

FINAL COMMENTS

This paper offers insights into the role of different types of change agency as these lead to developments in the nature of market socialism. It contributes to the development of agency theory in institutional change by reference to empirical evidence by reference to the dynamic nature of different types of economic agents and their roles in the process of institutional transformation. It sheds light on their interplay and offers an explanation for the pattern of response in different organizational fields that are shaping the character of Chinese market socialism. The ways in which they are oriented to change can be explained by two dimensions: their management-driven initiatives, and the degree of government policy support. It is evident from this discussion that market socialism in China possesses specific institutional characteristics that materially shape the formation and growth of contrasting economic agents. These agents, in turn, are shaping the role of the party and the institutional framework of market socialism. Chinese market socialism is not simply an ideological smokescreen that conceals structural similarities with Western capitalist economies. Certainly there are some of these, but as a specific type of socio-economic and political system, it defines the strategic and operational characteristics of a reformed state-owned sector as well as a rapidly growing privately-owned sphere of the economy, which itself incorporates key agents of change. Each of these agencies possesses features that are the direct outcome of on-going tensions between Communist Party political

objectives and the imperatives of market relations. It is likely these will become more acute as the Chinese economy continues to be integrated into the global economic marketplace. At the very least this discussion demonstrates the importance of taking into account the role of economic agents for shaping the specificities of macro-economic and political institutional forces that constitute the characteristics of market socialism in China. These purposive actions as well as the interplay of these agents will continue to share the continuing evolution of market socialism. That is, guided as always but also constraining upon the dominant role of the Communist Party.

IMPLICATIONS FOR MANAGERS

REFERENCES:

- Ahlstrom, D. and Bruton, G. D. (2010), 'Rapid Institutional Shifts and the Co-evolution of Entrepreneurial Firms in Transition Economies', *Entrepreneurship Theory and Practice*, May 2010, 34 (3), 531-554.
- Alexander, J. C. (1992), 'Some Remarks on 'Agency' in Recent Sociological Theory', *Perspectives* (Theory Section Newsletter, American Sociological Association), 15, 1-4.
- Baker, T. and Nelson, R. E. (2005), 'Creating Something from Nothing: Resource Construction Through Entrepreneurial Bricolage', *Administrative Science Quarterly*, 50, 329-66.
- Baker, T.; Miner, A. S. and Eesley, D. T. (2003), 'Improvising Firms: Bricolage, Account Giving and Improvisational Competencies in the Founding Process', *Research Policy*, 32, 255-76.
- Battilana, J. (2006), 'Agency and Institutions: The Enabling Role of Individuals' Social Position', *Organisation*, 13 (5), 653-76.

- Bennett, A. and Elman, C. (2006), 'Qualitative Research: Recent Developments in Case Study Methods', *Annual Review in Political Science*, 9, 455-476.
- Benson, J. K. (1977), 'Organisations: A Dialectic View', *Administrative Science Quarterly*, 22, 1-21.
- Boyer, R. (2007), 'How and Why Capitalisms Differ', *Economy and Society*, November 2005, 34 (4), 509-557.
- Branstetter, L. G. and Feenstra, R. C. (2002), 'Trade and Foreign Direct Investment in China: a political economy approach', *Journal of International Economics*, 58 (2), 335-358.
- Burns, J. and Nielsen, K. (2006), 'How Do Embedded Agents Engage in Institutional Change?', *Journal of Economic Issues*, 40 (2), 449-456.
- Burns, J. and Scapens, R. W. (2000), 'Conceptualizing Management Accounting Change: An Institutional Framework', *Management Accounting Research*, 11 (1), 109-135.
- Cambell, J. L. (1998), 'Institutional Analysis and the Role of Ideas in Political Economy', *Theory and Society*, 27, 377-409.
- Chen, C. J. P., Li, Z., Su, X. and Sun, Z. (2011), 'Rent-seeking Incentives, Corporate Political Connections, and the Control Structure of Private Firms: Chinese Evidence', *Journal of Corporate Finance*, 17, 229-243.
- Chen, J-G., Liu, Y-Q., Liu, X-H. and Ge, L-C. (2008), *Research On The 30 Years of China's Non-State-Owned Units Reform And Development*, Beijing: Economy & Management Publishing House.
- Child, J. and D. K. Tse (2001), 'China's Transition and Its Implications for International Business', *Journal of International Business Studies* 32, 5-21.
- Coleman, J. S. (1986), 'Social Theory, Social Research, and a Theory of Action', *American Journal of Sociology*, 6, 1309-35.
- Cooke, F. L. (2004), 'Foreign Firms in China: Modelling HRM in A Toy Manufacturing Corporation', *Human Resource Management Journal*, 14 (3), 31-53.
- Davison, W. H. (1987) 'Creating and Managing Joint Ventures in China', *California Management Review*, Summer, 29 (4), 77-94.

- Dorado, S. (2005), 'Institutional Entrepreneurship, Partaking, and Convening', *Organisation Studies*, 26 (3), 385-414.
- DiMaggio, P. J. (1988), 'Interest and Agency in Institutional Theory', in Zucker, L. G. (ed.), *Institutional Patterns and Organisations: Culture and Environment*, Cambridge, MA: Ballinger, pp. 3-22.
- DiMaggio, P. and Powell, W. (1983), 'The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organisational Fields', *American Sociological Review*, 48, 147-160.
- Eisenhardt, K. M. And Graebner, M. E. (2007), 'Theory Building from Cases: Opportunities and Challenges', *Academy of Management Journal*, 50 (1), 25-32.
- Emirbayer, M. and Mische, A. (1998), 'What is Agency?', *American journal of Sociology*, 103 (4), 962-1023.
- Fligstein, N. (1997), 'Social Skill and Institutional Theory', *American Behavioural Scientist*, 40, 387-405.
- Gao, Y. (2011), 'Government Intervention, Perceived Benefit, and Bribery of Firms in Transitional China', *Journal of Business Ethics*, 104 (2), 175-184.
- Garud, R.; Jain, S.; and Kumaraswamy, A. (2002), 'Institutional Entrepreneurship in the Sponsorship of Common Technological Standards: The Case of Sun Microsystems and Java', *Academy of Management Journal*, 45 (1), 196-214.
- Garud, R.; Hardy, C. and Maguire, S. (2007), 'Institutional Entrepreneurship as Embedded Agency: An Introduction to the Special Issue', *Organisation Studies*, 28 (07), 957-969.
- Hassard, J., Morris, J., Sheehan, J. and Xiao, Y. (2010), 'China's State-Owned Enterprises: Economic Reform and Organisational Restructuring', *Journal of Organisational Change Management*, 23 (5), 500-516.
- Hoffman, A. J. (1999), 'Institutional Evolution and Change: Environmentalism and the US Chemical Industry', *Academy of Management Journal*, 42 (4), 351-71.
- Hung, S-C. (2005), 'The Plurality of Institutional Embeddedness as A Source of Organisational Attention Differences', *Journal of Business Research*, 58, 1543-51.

- Jefferson, G., Hu, A. G. Z., Guan, X. and Yu, X. (2003), 'Ownership, performance, and innovation in China's Large- and Medium-size Industrial Enterprise Sector', *China Economic Review*, 14 (1), 89-113.
- Jiang, F-M. (2006), 'The Determinants of the Effectiveness of Foreign Direct Investment in China: An Empirical Study of Joint and Sole Ventures', *International Journal of Management*, December, 23 (4), 891-908.
- Kalantaridis, C. (2007), 'Institutional Change in Post-Socialist Regimes: Public Policy and Beyond', *Journal of Economic Issues*, 41 (2), 435-442.
- Kshetri, N. (2007), 'Institutional Changes Affecting Entrepreneurship in China', *Journal of Developmental Entrepreneurship*, December, 12 (4), 415-432.
- Lamberg, J. A. and Pajunen, K. (2010), 'Agency, Institutional Change, and Continuity: The Case of the Finish Civil War', *Journal of Management Studies*, 47 (5), 815-36.
- Lau, C. M., and Bruton, G. D. (2008), 'FDI in China: What We Know and What We Need to Study Next', *Academy of Management Perspective*, November, 22 (4), 30-46.
- Li, S. and Xia. J. (2008), 'The Roles and Performance of State Firms and Non-State Firms in China's Economic Transition', *World Development*, 36 (1), 39-54.
- Liu, G. S. and Garino, G. (2001), 'Privatization or Competition', *Economics of Planning*, 34, 35-51.
- Liu, G. S. and Woo, W. T. (2001), 'How Will Ownership in China's Industrial Sector Evolve WTO Accession?' *China Economic Review* 12 (1), 137-161.
- Lukes, S. (1973), *Individualism*, Oxford: Basil Blackwell.
- Nee, V. and Opper, S. (2010), 'Political Capital in a Market Economy', *Social Forces*, July, 88 (5), 2105-2132.
- Meyer, J. W. and Rowan, B. (1977), 'Institutionalized Organisations: Formal Structure as Myth and Ceremony', *American Journal of Sociology*, 83, 340-63.
- Newman, K. (2000), 'Organisational Transformation during Institutional Upheaval', *Academy of Management Review*, 25, 602-619.
- North, D. C. (1990), *Institutions, Institutional Change and Economic Performance*, Cambridge: Cambridge University Press.

- Oliver, C. (1996), 'The Institutional Embeddedness of Economic Activity', *Advances in Strategic Management*, 13, 163-86.
- Peng, M. W. (2003), 'Institutional Transitions and Strategic Choices', *Academy of Management Review*, 28 (3), 525-550.
- Peng, M. W., Tan, J. and Tong, T. (2004), 'Ownership Types and Strategic Groups in an Emerging Economy', *Journal of Management Studies*, November, 41 (7), 1105-1129.
- Puffer, S. M., McCarthy, D. J. and Boisot, M. (2010), 'Entrepreneurship in Russia and China: The Impact of Formal Institutional Voids', *Entrepreneurship Theory and Practice*, May, 34 (3), 441-467.
- Purdy, J. and Gray, B. (2009), 'Conflicting Logics, Mechanisms of Diffusion and Multilevel Dynamics in Emerging Institutional Fields', *Academy of Management Journal*, 52 (2), 355-380.
- Redding, G. and Witt, M. A. (2009), 'China's Business System and Its future Trajectory', *Asia Pacific Journal of Management*, September, 26 (3), 381-399.
- Sanders, R. and Chen, Y. (2005), 'On Privatization and Property Rights: Should China Go Down the Road of Outright Privatization?' *Journal of Chinese Economic and Business Studies*, November, 3 (3), 231-245.
- Seo, M-G. and Creed, W. E. D. (2002), 'Institutional Contradictions, Praxis, and Institutional Change: A Dialectical Perspective', *Academy of Management Review*, 27 (2), 222-247.
- Scott, W. R. (1987), 'The Adolescence of Institutional Theory', *Administrative Science Quarterly*, 32 (4), 493.
- , W. R. (2002), 'The Changing World of Chinese Enterprise: An Institutional Perspective'. In A. S. Tsui & C. M. Lau (Eds.), *The Management of Enterprises in the People's Republic of China* (p.59-78), New York: Kluwer Academic Publishing.
- , W.R. (2007). *Institutions and Organizations: Ideas and interests*. Thousand Oaks, CA: Sage Publications.
- Sheehan, J., Morris, J. and Hassard, J. (2000), 'Redundancies in Chinese State Enterprises: A research Report', *Journal of Industrial Relations*, July, 39 (3), 486-501.

- Su, C. and Littlefield, J. E. (2001), 'Entering Guanxi: A Business Ethical Dilemma in Mainland China?', *Journal of Business Ethics*, 33 (3), 199-210.
- Tan, J. (2002), 'Impact of Ownership Type on Environment-Strategy Linkage and Performance: Evidence from A Transitional Economy', *Journal of Management Studies*, May, 39 (3), 333-354.
- Tung, S. and Cho, S. (2001), 'Determinants of Regional Investment Decisions in China: An Econometric Model of Tax Incentive Policy', *Review of Quantitative Finance and Accounting*, 17, 167-185.
- Wang, H. and Han, G. (2008), 'Local Government's "Black Box" in Small and Medium-Sized Private Enterprises' Trans-Ownership M&A Failure', *Journal of Small Business and Enterprise Development*, 15 (4), 719-732.
- Xinhua News, Special Report, 'The Three Representatives', 25th June 2001. (<http://news.xinhuanet.com/english/20010625/422678.htm> accessed on 28 February 2010)
- Yang, K. (2004), 'Institutional Holes and Entrepreneurship in China', *The Sociological Review*, August, 52 (3), 371-389.
- , K. (2002), 'Double Entrepreneurship in China's Economic Reform: An Analytical Framework', *Journal of Political and Military Sociology*, 30 (1), 134-148.
- Yano, G. and Shiraishi, M. (2004), 'Efficiency of Chinese Township and Village Enterprises and Property Rights in the 1990s: Case Study of Wuxi', *Comparative Economic Studies*, June, 46 (2), 311-340.
- Yin, R. K. (2003), *Case Study Research: Design and Methods*, 3rd ed., London: Sage Publications.
- Yu, J-P. (2004), 'Foreign Investment Policies, National Benefits and Economic Development', *Economics Studies*, No. 5.

NOTES:

[1] Access to enterprises, particularly to state-owned enterprises in China is very difficult. In this research, initial contact with the case study companies was established by the researcher through

personal connections. These 'key' informants – senior directors or in the case of the entrepreneurial firm, the owner – then allowed for other members of their companies to be interviewed and approved access to relevant documentary data. These permissions were given on the condition that the companies agreeing to take part in the study should be anonymous. Furthermore, lawyers and accountants were also interviewed to verify the accuracy of financial performance and legal matters. The collection of data followed the 'triangulation principle' whereby multiple sources of data were used and explicit links maintained among these different sources to develop a chain of reinforcing consistent evidence (Yin, 2003; Eisenhardt and Graebaner, 2007). Three types of information were used for the purposes of validity: (1) key informants selected from the case companies; (2) officials from government agencies; and (3) professional experts such as independent accountants and solicitors. The cases were chosen from the textile industry since this has been at the forefront of government structural reforms since the early 1990s.