Management and Organization Review 6:1 101–121
doi: 10.1111/j.1740-8784.2009.00157.x

組織管理研究

Is Entrepreneur–Politician Alliance Sustainable During Transition? The Case of Management Buyouts in China

Pei Sun,[1] Mike Wright,[2] and Kamel Mellahi[3]
[1]*Fudan University, China,* [2]*Nottingham University, UK, and* [3]*University of Sheffield, UK*

ABSTRACT This article explores the dynamic interactions between entrepreneurs and politicians in transitional China through the lens of management buyouts. Specifically, we identify two contrasting outcomes of entrepreneur–politician alliances: privatization buyouts by entrepreneurs implying sustainable original alliances and failed management buyouts implying the collapse of the original alliances. Drawing on the rent appropriation literature, we treat Chinese management buyouts as bargaining, clarification, and redistribution of organizational rent between entrepreneurs and the government agencies represented by local politicians. We further develop a model of entrepreneur–politician bargaining that identifies the determinants of varying rent bargaining and management buyout outcomes.

KEYWORDS China, entrepreneurs, management buyout (MBO), rent appropriation, transition

INTRODUCTION

The rise of entrepreneurship in emerging economies has attracted considerable scholarly attention (McMillan & Woodruff, 2002; Peng, 2001; Wright, Hoskisson, Busenitz, & Dial, 2000). While the characteristics, strategies, and economic impacts of entrepreneurs in China have made significant progress (Chang & MacMillan, 1991; Tan, 1996; Tsui, Bian, & Cheng, 2006; Wright, Liu, Buck, & Filatotchev, 2008), our understanding of the *dynamic* processes by which they interact with other major players during transition, such as politicians, state-owned enterprises (SOEs) and financial institutions, remains inadequate, and there is a need for further contextualization in terms of phenomena and theory (Tsui, 2006).

This article aims to narrow the gap by analysing the dynamic interactions between entrepreneurs and politicians through the lens of management buyouts in transitional China. A management buyout typically involves the acquisition of all or part of a firm by a new company in which the existing management takes a substantial proportion of the equity (Wright, 2007a). In this article, we treat Chinese management buyouts starting in the late 1990s as involving the bargaining, clarification, and redistribution of firm surplus between entrepreneurs and the government agencies that politicians represent. The outcome of the bargaining, i.e., the successful or failed attempt to complete a management buyout, has profound impacts on the durability of the entrepreneur–politician alliance and the long-term performance of these firms.

In view of various successful and failed management buyouts that have attracted a great deal of academic, business, and media interests in China, we develop a fresh analytical framework and theoretical propositions to characterize entrepreneur–politician bargaining in this emerging market context. In particular, we draw on the rent bargaining/appropriation literature (Alvarez & Barney, 2004; Bowman & Ambrosini, 2000; Coff, 1999) to shed light on the complex management buyout process in China. Moreover, the theoretical model developed in this paper has potential applicability to understanding the evolution of other types of stakeholder partnerships. Beyond a focus on politicians and entrepreneurs in transition economies, the model may be adapted to analyse the dynamics of other stakeholder relationships by identifying key contextual factors determining the stakeholder bargaining powers, the intensity of bargaining over new types of organizational/partnership rent, and the eventual stability of the partnership.

The next section provides a brief overview of the origin and strategic choice of entrepreneurs in transitional China, with special reference to their interactions with central and local political forces. Two broad patterns of entrepreneur–politician bargaining outcomes are identified: (i) successful privatization buyouts by entrepreneurs: entrepreneurs manage to gain corporate control while politicians exit, but the alliance remains at work in some different forms from government control; (ii) the collapse of the original alliance: entrepreneurs fail to gain control and are dismissed by politicians, who sometimes introduce replacements from outside. Following the description of two illustrative management buyout cases in China, we develop a theory of politician–entrepreneur bargaining along with a set of testable propositions with reference to the determinants of their evolving bargaining powers, the intensity of the rent struggle, and the durability of their alliances. The final section identifies theoretical contributions, limitations and future research directions, and policy implications.

CONTEXTUAL BACKGROUND

Entrepreneur–Politician Alliance in Transitional China

Transition in China is characterized by gradual experimentation involving the emergence of a range of public-private hybrids established by nascent entrepreneurs and pro-business politicians (Nee, 1992; Oi & Walder, 1999). These include

https://doi.org/10.1111/j.1740-8784.2009.00157.x Published online by Cambridge University Press

township and village enterprises, urban collectives, and reformed local state-owned enterprises.

Under joint control of local politicians and entrepreneurs, key decision-making in township and village enterprises was subject to bargaining between the two parties (Oi & Walder, 1999; Zhang, 2008). In some cases, local governments contributed financial capital at the start-up and were deeply involved in major decision-making, while entrepreneurs were hired for operational decisions and awarded more incentive contracts over time (Chen & Rozelle, 1999; Walder, 1995). Many others were established by entrepreneurs who cooperated with local officials to mask their private nature by designating them as rural collectives where local officials are generally more removed from firm operations (Chen, 2007).

In the urban sector, entrepreneur–politician partnerships are present in various government controlled organizations. Some small- and medium-sized local state owned enterprises and urban collectives developed under the leadership of charismatic managers with an entrepreneurial mindset. Famous examples include TCL[1] and Haier.[2] Such entrepreneurial alliances proliferated across the public sector during the reform era.

This emergence of entrepreneur–politician ventures implies a blurred line between the identity of entrepreneurs and state sector cadres within these organizations. During transition, some government officials, technocrats, and managers in state firms became entrepreneurs by demonstrating innovativeness, proactiveness, and risk-taking attitudes (Tan, 1996). The emergent group of entrepreneurs is distinct from normal politicians, though many remained as cadres in the parent state agencies.

Politicians were also keen to stimulate business ventures for their own ends (Li & Zhou, 2005; Liu, Sun, & Woo, 2006). First, these hybrid fringe players made a significant contribution in the context of a cadre evaluation system that exerts heavy pressures on local politicians to improve the economic growth record of their jurisdiction. Second, new ventures under their jurisdiction provided politicians, who had become self-interested, opportunistic agents with a readier means to derive private gains than through loss-making state owned enterprises.

Since the state still controls a wide range of financial and regulatory resources, such as access to bank loans, it was natural in the early stage of transition for entrepreneurs to overcome these disadvantages by adopting a 'boundary blurring' strategy with political agencies (Peng, 2000). Moreover, strategic political affiliation helped defuse ideological hostility, policy discrimination, and predation from the government (Tsang, 1996; Xin & Pearce, 1996). Consequently, political capital and/or resources, when combined with market-based competences contributed by entrepreneurs, formed a unique synergy that made such alliances outperform many state-owned enterprises and private firms.

Although these hybrid forms often outperformed state-owned enterprises, they have long been predicted to be transitional (Li, 2005; Nee, 1992). Their benefits diminish as the growth of market-based institutions and rule-based exchange reduces the necessity of political affiliation. Despite having vested interests in the continued success of firms they control, politicians have a strong tendency to use profitable firms as social instruments for their own ends (Nee, 1992).

Evolutionary Paths of Entrepreneur–Politician Alliances: Two Illustrative Cases

The subsequent evolution of ownership and control in China largely confirms this theoretical prediction of hybrids' transitional nature, as a majority of collective hybrids had been privatized by the early 2000s (Liu et al., 2006, tables 2 and 3; Kung & Lin, 2007, figure 1). Insider privatization is found to be a major avenue of ownership transformation in small and medium state firms and collective hybrids (Garnaut, Song, Tenev, & Yao, 2005).

Not all firms (or entrepreneurs) are that lucky, though. While databases offering detailed management buyout information are not yet available in China, the data that we hand-collected from Chinese publicly listed companies suggest that, among a total of 53 management buyouts attempted by the management from 1996 to 2005, 17 (32 percent) of them failed. Anecdotes abound in the Chinese business media about high-profile failures of management buyouts in what were once successful entrepreneur–politician alliances.

It is puzzling that the founding entrepreneurs failed to secure any sizable ownership stakes, and some were even removed by the government from their managerial positions through forced retirement or charges of economic crimes. The firms in question either remained state-owned or were sold to outside groups. The possibility of organizational upheaval during a management buyout was vividly described by a Chinese commentator when discussing the case of 'Red Hat' firms:

> It is said that those who wear a Red Hat have a time bomb on their head. The first type of firms have safely removed the bomb, the second type has not removed the bomb yet, while the third type blew up when removing the bomb (as quoted in Chen, 2007: 74).

To further illustrate the stylized patterns noted above, we sketch two cases regarding successful and failed management buyouts. The first case – Midea – was a township and village enterprise that has successfully transformed itself into a private business group.[3] It started as a collective workshop founded by Xiangjian He – then a cadre in the local community – and 22 local residents in 1968. Under He's leadership, these 23 people contributed a sum of RMB 5,000 and formed the 'plastics production team' in Beijiao Township, Shunde County, in Guangdong. During the 1970s, the firm was involved in metal processing and the production of truck components. A notable episode during this stage is that the firm began losing money immediately after He was promoted to a higher position in the Beijiao township government in 1977. Thus, the township government decided to send him back to turn the business around at the end of 1979, and since then He has never left the firm.

In the 1980s, the firm started to produce electric fans and air conditioners, which later became its core business segment. Although the township government did not make any financial contribution to the firm at its founding stage, its support proved critical during Midea's takeoff, ranging from political legitimacy to access to bank loans and tax breaks and to the award of export licenses. In 1993, Midea became the first township and village enterprise listed on the domestic stock market, and the township government acted as dominant shareholder, owning 44.26 percent of the equity.

Such clarification of the once ambiguous property rights was not the end of the story. Behind-the-scenes negotiations between government officials and company senior managers started as late as 1998 about prospective management buyout plans. Specifically, He and his associates registered two companies in 1998 and 1999. The official owners of the first company are all managers and employees, and the other is owned by eight senior managers, including He and his son. The two companies, in turn, purchased the shares held by the township government at a price below the prevailing net asset per share.[4] Moreover, the two companies (the management) paid only 10 percent of the total value when concluding the deal in 2000, while the remaining 90 percent was paid by installment and financed by bank loans. Interestingly, the loans were guaranteed by the seller – the township government. The firm continued to grow and prosper after the buyout and is one of the largest home appliance makers in China.

However, it is not hard to find failed management buyout cases. Located in the same Shunde County, a once famous township and village enterprise – Kelon – has a drastically different fate from Midea.[5] Kelon was founded in 1984 through collaboration between entrepreneurs and the Rongqi township government. At that time, Guoduan Wang ran a small factory producing cheap transistor radios. Both Wang and the township government were keen to explore new business opportunities and investigated nationwide which consumer goods were in high demand. Ning Pan, a vice-head of the township government, was henceforth assigned as general manager to work with Wang. Despite the lack of experience and technical capability in refrigerator production, Rongqi Township provided seed capital of RMB 90,000 (roughly $30,000 at the prevailing official exchange rate) and helped to secure a bank loan of RMB 400,000 ($130,000).[6] Kelon received further essential support from the local government through the intensive lobbying for a production license from the central government in the mid 1980s.

Kelon's subsequent takeoff was dramatic. By 1991, Kelon had already become the top refrigerator maker in China, enjoying a 10.3 percent market share.

Furthermore, Kelon was a pioneer in corporatization experiments. As early as 1992, the firm was transformed into a shareholding company, in which the Rongqi township government held 80 percent of shares and managers and employees were offered the remaining 20 percent stakes. In 1996, Kelon became the first Chinese township and village enterprise that the central government allowed to float on the Hong Kong Stock Exchange.

Despite Kelon's strong market position during the 1990s, in 2000 it became loss-making for the first time, with a net loss of RMB 830 million ($103.75 million) and with a 30.9 percent sales decline. A further financial hemorrhage of more than RMB 1.4 billion ($175 million) net losses followed in 2001, leaving Kelon on the verge of bankruptcy. We suggest that this dramatic change of fortune was related to a failure in incentive alignment of management and to government expropriation of firm assets.

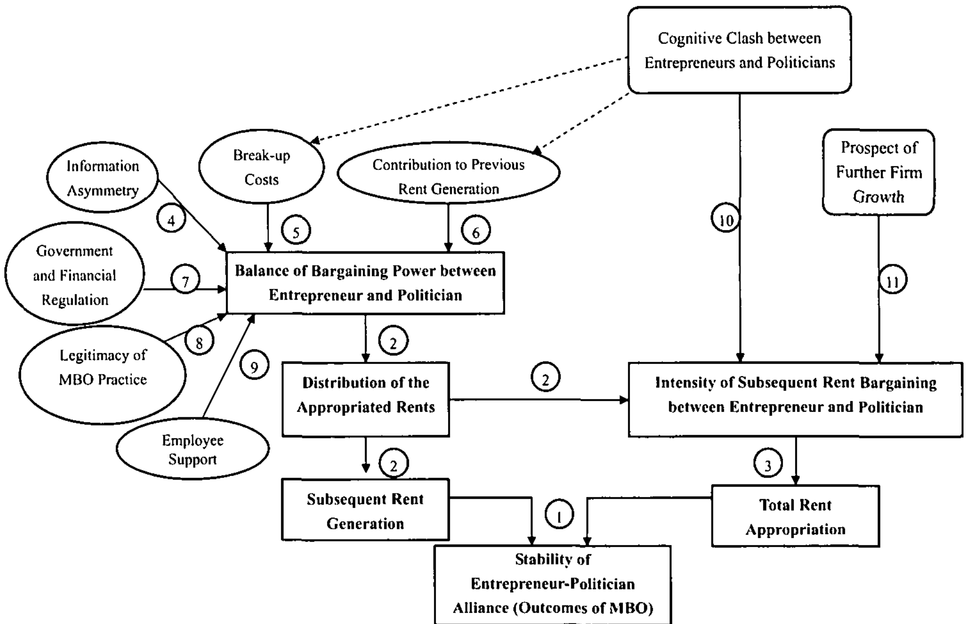
First, the township government persistently refrained from granting more ownership stakes to company managers so that even the two corporate founders – Pan and Wang – held negligible shares in the listed firm. Absent formal incentive contracts, management chose to capture private benefits through self-dealing activities, partly evidenced by the soaring operating expenses in the second half of the 1990s. Another dimension of the failure is related to a series of turbulent managerial turnovers triggered by the forced retirement of Pan and Wang in 1999 and 2000, respectively. Pan disagreed with the government on the lack of ownership incentive plans for managers and repeatedly prevented the government from extracting firm resources at its own will. For example, during his tenure, he repeatedly refused to take over other unrelated loss-making firms owned by the local government, hence, the purge by the township government. Second, the township government engaged in intensive asset stripping in the late 1990s. Specifically, it diverted a total of RMB 1.26 billion ($150 million) from the listed Kelon Electrical Holdings Co. Ltd through a string of secretive party-related transactions from 1998 to 2001. In the end, Kelon was hastily sold by the township government to a private firm in late 2001.

Given the divergent paths of evolution, existing literature has yet to explore how entrepreneurs managed or failed to decouple the firms from the supervisory/sponsoring government agencies. What internal and external factors determine the varying bargaining outcomes? Answers to this question are critical to understanding the dynamics of entrepreneur–politician interactions.

MODEL AND PROPOSITIONS: TOWARDS A THEORY OF RENT APPROPRIATION DURING INSTITUTIONAL TRANSITION

The foregoing observation of contrasting evolutionary paths in entrepreneur–politician alliances motivates us to develop a theory of entrepreneur–politician bargaining in the context of institutional transition. We propose a two-stage

Figure 1. A dynamic model of rent generation and rent appropriation in entrepreneur–politician alliances



Notes:
Encircled numbers indicate the related proposition. MBO, management buyout.

dynamic model of organizational rents appropriation in Figure 1, identifying the key factors determining the durability of the entrepreneur–politician alliance.

We posit that the long-term stability of an entrepreneur–politician alliance depends on a dynamic balance between the rents created by the two parties in the rent generation stages and those taken away in the rent appropriation stages (Proposition 1). Rents generated and appropriated are, in turn, determined by two important intervening variables – the distribution of the appropriated rents and the intensity of subsequent rent bargaining, respectively. Differing rent distributions affect the willingness of the stakeholders to invest in future rent generation and, hence, the total amounts of rents that will be created by the alliance (Proposition 2). Further, differing rent distributions lead to varying intensities of ensuing rent bargaining, which, in turn, impact the total rents appropriated (Proposition 3).

A given distribution of the appropriated rents is the result of a power balance between entrepreneurs and politicians, which is determined by a wide range of firm-specific and systemic factors (Propositions 4–9). In addition to impacts from rent distribution, the intensity of rent struggle is also affected by the extent of cognitive clash between the two parties over preceding contributions to rent generation and break-up costs (Proposition 10) as well as the prospect for further growth (Proposition 11). Overall, these factors interact during the course of transition to determine the fate of entrepreneur–politician alliances, that is, whether

https://doi.org/10.1111/j.1740-8784.2009.00157.x Published online by Cambridge University Press

they continue to work through a successful management buyout or are dissolved through a failed buyout. In what follows, we develop these propositions in detail.

The Dynamics of Organizational Rents

Organizational rents are above-normal economic returns stemming from a unique bundle of resources and capabilities embedded in an organization (Amit & Schoemaker, 1993). The rent-generating strategic resources, in turn, must be valuable, scarce, imperfectly imitable, and difficult to substitute (Barney, 1986, 1991) to bestow sustained competitive advantage. Recent studies, however, have noted that the traditional resource-based view (RBV) of the firm is largely silent on how rents generated within a firm or across interfirm networks are appropriated by its stakeholder groups before being observed through conventional performance measures (Alvarez & Barney, 2004; Barney, Wright, & Ketchen, 2001; Coff, 1999). Therefore, sustainability of organizational rents also depends on whether the organization can retain a significant portion of these rents while preventing them from being dissipated among its stakeholder groups (Kay, 1993).

The formation of organizational rents involves two stages. In the rent generation stage, rents arise from a nexus of explicit and implicit contracts within the firm or across organizational boundaries, both of which involve a wide range of stakeholders (Dyer & Singh, 1998; Hill & Jones, 1992). According to the RBV, it is in the nexus of stakeholder contracting that the potential organizational rents are generated (hence, the term 'nexus rent' coined by Coff, 1999). In the context of entrepreneur–politician partnerships in transitional China, the rents of this particular organizational form stem largely from the unique alliance between human and political capital under this distinctive institutional environment. Thus, 'alliance rent' is a parsimonious term characterizing the rent-generating nexus between the two stakeholders.

Once nexus rents have been generated, they are up for grabs by stakeholder groups in the rent appropriation stage. In reality, it is quite common that a significant proportion of nexus rents fail to be retained within the firm but flow to certain stakeholder groups. The managerial agency problem identified in the financial economics literature (Jensen & Meckling, 1976) can be reinterpreted as the grabbing of rents by top executives. Similarly, the scope for rent capture by managers and financiers in management buyouts has been recognized as a controversial issue in the West (Bruner & Paine, 1988). In the Chinese context, different outcomes regarding privatization buyouts represent different results of rent appropriation by management and the government agencies that politicians represent. Successful buyouts imply a transfer of rents from government agencies to managers/entrepreneurs, whereas failed ones indicate the opposite.

A key implication of treating organizational rents as the difference between nexus rents and appropriated rents is that rent appropriation by stakeholder groups

https://doi.org/10.1111/j.1740-8784.2009.00157.x Published online by Cambridge University Press

plays an important role in the sustainability of a firm's competitive advantage. Here, we extend Coff's thesis of stakeholder bargaining by explicitly considering rent appropriation and rent generation in a dynamic set-up. Specifically, the functioning of a business firm as a nexus of stakeholder contracts can be seen as a continuous sequence of rent appropriation and rent generation activities.

As the preceding cases illustrate, an initial unjustified distribution of appropriated rents by key stakeholder groups, such as managers or politicians, may significantly impair the incentives of the disadvantaged/dissatisfied group(s) to contribute to the rent generation stage in the next round, thus resulting in a gradual erosion of the nexus rents. Meanwhile, an initial unjustified distribution of appropriated rents may also encourage dissatisfied stakeholder group(s) to devote more time, energy, and resources to enhancing their bargaining powers in the hope of changing the current rent distribution in the later rounds of rent appropriation (Baumol, 1990; Skaperdas, 1992). This, in turn, gives rise to more intense bargaining and more rents being appropriated away from the firm. If key stakeholders can reach an agreement after the renegotiation about rent distribution, organizational infighting may come to a halt, with the bulk of organizational rents preserved.

Under some circumstances, however, a downward spiral might occur, resulting in a steady decline of organizational rents or even a break-up of the original rent-generating alliance. Thus, we are less optimistic than Coff (1999) about the long-term stability of a rent-generating nexus. In fact, the stability of the original stakeholder alliance is positively correlated with the amount of nexus rents generated in subsequent stages and negatively correlated with the amount of rents appropriated by the stakeholders in subsequent stages. In line with the organizational evolution of the hybrid firms in transitional China, we offer the following three baseline propositions, linking stakeholder power balance and rent generation on the one hand and linking bargaining intensity and rent appropriation on the other:

Proposition 1: The stability of the entrepreneur–politician alliance will be positively correlated with the amount of subsequent alliance rent generation and will be negatively correlated with the amount of total rent appropriation away from the firm.

Proposition 2: The more unbalanced the stakeholder bargaining powers and the more uneven the current distribution of the appropriated rents, the smaller the amount of subsequent rent generation within the firm will be.

Proposition 3: The more uneven the current distribution of the appropriated rent and the more intense the bargaining in the subsequent rent appropriation stages, the larger the amount of total rent appropriation away from the firm will be.

The Determinants of Stakeholder Bargaining Power

To the extent that power differentials between stakeholder groups are the norm in modern business organizations (Hill & Jones, 1992), one cannot understand the distribution of the appropriated rents without examining the determinants of stakeholder bargaining powers. Coff (1999) outlined four generic determinants of bargaining powers possessed by management, employees, and shareholders in a corporate context – capability of unified action, access to or control over information, replacement costs if a stakeholder exits, and stakeholder exit costs. While these general factors go a long way towards helping understand the determinants of power, without combining details of a particular business context, it remains difficult to predict an exact pattern of rent distribution among the three groups. Below, we examine factors that may affect the evolving bargaining powers of entrepreneurs and politicians in their alliances in transitional China.

Information asymmetry. First, a large part of managerial bargaining power stems from the information asymmetry between politicians and managers as the latter have much more detailed information about the internal operation and the true value of the firm (Roland, 2000; Shirley & Walsh, 2000). In some cases, only the management has an accurate idea of how many (nexus/alliance) rents are actually created in the first place. If local government officials have many enterprises to supervise and do not have time to participate in day-to-day operations, especially as is the case in many 'Red Hat' firms, entrepreneurs/managers will be in an advantageous position to distort the information available to the former. Specifically, due to the underdeveloped capital market and lack of professional accounting practices in this transitional period in China, they may make the firm's performance look worse than it actually is to motivate the politicians to undertake privatization or a management buyout (Chen, 2004; Liu et al., 2006). If the buyout price is based on the book value of total assets rather than on a contingent basis, as the Midea case suggests, they are very likely to obtain a discount by artificially lowering the book value upon expectation of a management buyout. Based on this analysis, we offer the following proposition:

> *Proposition 4: The higher the degree of information asymmetry between entrepreneurs and politicians in firm operations, the larger the rent bargaining power of the entrepreneurs will be relative to that of the politicians.*

Break-up costs. Second, the cost of a potential break-up, which incorporates both replacement costs and exit costs (Coff, 1999), can be high for both parties. In a transitional economy like China's, the parties involved may underestimate break-up costs as they have less experience dealing with break-ups than in a developed economy.[7] However, in a bargaining context, it is the relative position between the two parties that is crucial. We posit that the break-up cost is generally higher for entrepreneurs/managers than for politicians. Since many entrepreneurs retained their cadre status in parent government agencies, they are susceptible to political retaliation if the bargaining breaks up ungracefully. Even absent retaliation, the threat of exit by entrepreneurs is not very credible because of the firm-specific investments they have made. Partly owing to this asset specificity and partly to the underdeveloped managerial labour market in China, they have limited outside options to recover the value of their human capital. For politicians, the cost can be high if the original alliance collapses because they may not easily find suitable and reliable outside replacements, and they may suffer major losses in government financial revenue and private benefits. Nonetheless, the situation is less devastating for politicians for two reasons. First, there is still a possibility of building up new rent-generating alliances with outside investors/entrepreneurs. Second, as supervisors of multiple enterprises in a locality, they have a greater capacity to endure break-up losses than entrepreneurs. Thus:

Proposition 5: The larger the cost of a potential break-up to entrepreneurs than that to politicians in their alliances, the larger the rent bargaining power of the politicians will be relative to that of the entrepreneurs.

Contribution to previous rent generation. Third, a stakeholder's contribution to earlier stages of rent generation can be important in determining its power in subsequent rent bargaining. Although Bowman and Ambrosini (2000) denied such a relationship, the illustrations of Midea and Kelon strongly suggest otherwise. Entrepreneurs significantly contribute to rent generation on account of their entrepreneurial and managerial skills. The essential contribution of political resources in the early stage of firm development is to equip politicians with strong bargaining powers in subsequent rent appropriation, in spite of the gradually declining value of the resources at their disposal in later stages of transition. In particular, if government agencies contributed financial capital at the start-up stage, it is very challenging for entrepreneurs to change the *de jure* status of ownership. In contrast, the absence of direct financial input from the government makes it easier for the entrepreneurs to change the *status quo* of rent distribution. Hence:

Proposition 6: The larger the contribution to previous rent generation by the politician or entrepreneur, the larger the politician or entrepreneur's bargaining power will be.

Government and financial regulation. Fourth, management buyouts in China also highlight the importance of the wider institutional environment in affecting the bargaining powers of the two parties. It has been well recognized that economic actions are embedded in a wide array of regulatory, normative, and cognitive institutional parameters (Scott, 2008). Key among the regulatory parameters is the central government, which sets the policy framework for management buyouts. Generally speaking, the central state does not want to make a clear distinction between these hybrids and traditional public enterprises. While turning a blind eye to insider privatization in township and village enterprises and small local state-owned enterprises, it is against the use of management buyouts in medium and large state-owned enterprises. Interestingly, however, there was no well-defined management buyout regulation at the central level in the late 1990s and early 2000s. The first comprehensive regulation – *Provisional Regulations on the Management Buyout of State-Owned Enterprises* – was issued by the State Asset Supervision and Administration Commission and the Ministry of Finance in April, 2005.

Consequently, the bargaining power of the grass-roots politicians is significantly enhanced in the presence of supportive regulation, as entrepreneurs need to secure local politicians' support as a political shelter from central intervention. Otherwise, grass-roots politicians have an excuse to crack down on unilateral buyout attempts on the grounds of enforcing central government policy.

Relatedly, financial institutions have a major impact on the financing of a management buyout. A key difference between a privatization buyout in China and a leveraged buyout in the West lies in the ease with which the management can raise sufficient funds to finance their buyout (Wright, 2007b). Conventional channels such as commercial banks are controlled by the Chinese state, and their credit decisions can easily be influenced by local politicians. Even without political manipulation, management may still experience difficulty in providing collateral to obtain bank funds, while a political helping hand could easily solve the financing problem, as illustrated in Midea's case. Therefore, the bargaining power of grass-roots politicians also relates to the extent to which they can affect bank lending decisions (Park & Shen, 2003), which in turn affect entrepreneurs' financing constraints.

The future bargaining position of management in these hybrid firms remains to be seen, but it depends on whether political intervention in the banking system is quickly diminishing and on whether they can find and effectively utilize new financial partners such as private equity firms and foreign investors to bypass domestic constraints. Summing up the impacts of the regulatory environment discussed above, we propose the following:

Proposition 7: The tighter the regulation from the central government and the state-controlled financial sector, the larger the bargaining power of the local politicians will be.

Legitimacy of management buyout practice. Regarding normative and cognitive factors, institutional theory argues that economic actors and organizations are under heavy isomorphic pressures to comply with prevailing institutional logics (DiMaggio & Powell, 1983), such as legitimacy. According to Suchman (1995), legitimacy refers to a legal and societal judgment of the appropriateness, image, and legal standing of an organization and an agent's behaviours. Lacking legitimacy will reduce the ability of organizations or agents to pursue their goals.

The current institutional environment in China seems a mixed blessing. On the one hand, 'privatization' is no longer a political taboo, so entrepreneurs/managers cannot be punished for the act of management buyout itself (Ahlstrom & Bruton, 2001; Ahlstrom, Bruton, & Yeh, 2008). On the other hand, current management buyout practices in China, characterized by the absence of open, competitive bidding, the lack of third-party monitoring on asset evaluation, and the clandestine nature of the whole process, are reminiscent of the notorious *nomenklatura* buyouts in Eastern Europe (Filatotchev, Starkey, & Wright, 1994; Frye, 2006) carried out by Communist Party functionaries who assumed controlling positions in the new enterprise. Indeed, management buyouts have been treated by some populist media as synonymous with the dissipation of state assets through insider self-enrichment, nothing more than another episode of widespread corruption and social injustice. This public unpopularity of management buyouts, whether justified or not, translates into a reduction of managerial bargaining power: they may be weaker when negotiating a buyout deal with their political partners because they have to rely on them to help overcome external hostility. Hence:

Proposition 8: The lower the legitimacy of management buyouts as a form of wealth redistribution in society, the smaller the bargaining power of the entrepreneurs will be.

Employees. Finally, the discussion of power differentials between entrepreneurs and politicians cannot be isolated from the impacts of employees. In the Chinese context, managers try to secure employee support by incorporating them as new owners in real or symbolic terms. Specifically, management can create a new collective entity – an employee shareholding association – as the proposed new controlling shareholder of the buyout target. The association is not controlled by trade unions and, in practice, is likely to be captured by the management. Alternatively, they can establish a new holding company with significant employee ownership (as illustrated by Midea) to acquire the target firm.

Employees do not necessarily always support privatization buyouts (Dong, Bowles, & Ho, 2002). This is especially the case when the sale price in a management buyout plan is too low to cover compensations for labour resettlement. If their welfare benefits are seriously harmed in the restructuring process, employees may voice their disgruntlement by staging demonstrations. The incidence of social unrest, in turn, can immediately motivate the local politicians to stop a controversial management buyout (Liu et al., 2006). Hence:

Proposition 9: The higher their ability to enlist the support of employees in a potential management buyout, the larger the bargaining power of the entrepreneurs will be relative to that of the politicians.

The Intensity of Rent Struggle in Rent Appropriation Stages

As a specific rent distribution arises from the balance of bargaining powers between stakeholder groups, Propositions 2 and 3 suggest that this distribution has considerable impact on the intensity of rent bargaining in subsequent rent appropriation stages, especially when a key stakeholder is dissatisfied with this distribution. In this subsection, we explore other crucial factors that may determine the intensity of rent bargaining in the rent appropriation stages.

Cognitive clash between entrepreneurs and politicians. One particularly relevant factor is the evolving cognitive clash between entrepreneurs and politicians. As their alliances grow, both parties have developed, to varying degrees, a 'proprietary attitude' to the alliance rents (Francis, 1999). With respect to entrepreneurs, some may perceive themselves as the real founders of the ventures and regard the existing rent distribution as 'unjustified' during transition. Some may play down the politicians' contribution by treating the initial affiliation as little more than a political expediency whereas others appreciate the continuing network value of the political partners in 'their' firms.

As an illustration, Ning Pan at Kelon did not seem to value the contribution from his political partners in the late 1990s, as he once contrasted his experience in Hong Kong to that in the Mainland: 'When I am in Hong Kong, I can concentrate on business and there is no special need of making friends with government officials. But here I have no choice but to deal with the local politics.'[8] In contrast, our interviewees reported that Xiangjian He at Midea has a more 'realistic' understanding of the role played by the local government even in the late stage of transition.

On the part of politicians, some, especially those who have contributed financial capital at the beginning, tend to adopt a legalistic view of firm ownership by regarding the entrepreneurs as little more than the agents of normal public enterprises. Others, however, remain open-minded about future changes of ownership form as long as their private benefits are retained. Consequently, a potential clash of perceptions about the magnitude of their respective contributions to the generation of alliance rents could result in serious discontent about the extant rent distribution and, thus, fiercer bargaining in the subsequent rent appropriation stages.

In addition, entrepreneurs and politicians may estimate the costs of a potential break-up during institutional reform differently. Some entrepreneurs might believe that they are integral to the firms and may reinforce their perception by comparing themselves with other firms supervised by the same politicians. If the two parties' beliefs about the break-up costs diverge over time, there tends to be a higher level of ex post rent bargaining since each may believe that they can change the *status quo* in their own favour. Alternatively, if their estimated break-up costs and, consequently, their perceived power balance are in agreement, the intensity of subsequent rent struggle will reduce. In sum, cognitive factors relating to rent contribution and break-up costs have profound impacts on the intensity of rent struggle:

Proposition 10: The intensity of rent struggle between stakeholders in subsequent rent appropriation stages will be positively correlated with the degree of their cognitive clash over the importance of their respective contributions to rent generation and over the estimated costs of a potential break-up.

Prospect of further firm growth. Finally, such exogenous factors as the opportunities for further firm growth may also affect the intensity of rent struggle. For example, if a firm is located in an industry with good growth prospects, stakeholders may defer the infighting even if some are not entirely happy with the current rent distribution. They may expect themselves to be better off by quickly enlarging the potential nexus rent. This is illustrated by the management buyout at TCL.

When Dongsheng Li and the Huizhou municipal government negotiated a management buyout in 1997, TCL was enjoying fast sales growth due to the strong domestic demand. Therefore, the parties reached the following agreement. The existing stock of firm assets remained state-owned, but from 1997 onwards, management would be rewarded by share ownership according to the following rules: if the annual growth in return on equity ranged from 10–25 percent, management would obtain 15 percent of the annual equity increase; if the return on equity growth rate lay between 25 and 40 percent, management would share 30 percent; and if the return on equity grew more than 40 percent, management were able to share 45 percent of the increase. Since TCL's average annual return on equity growth rate was above 50 percent during the entirety of the 1990s, the municipal government's stakes were gradually diluted. However, if the industry in which the firm is located no longer offers great opportunities for further growth, the declining prospect of future rent generation may act as a catalyst for more intense rent appropriation. Hence:

Proposition 11: The intensity of rent struggle between stakeholders in rent appropriation stages will be negatively correlated with the prospect for further growth of the firm in question.

DISCUSSION

On a conceptual and methodological note, this research paper echoes the call for contextualization in conducting Chinese management research (Tsui, Schoonhoven, Meyer, Lau, & Milkovich, 2004; Whetten, 2009). Specifically, this article not only helps extend the understanding of rent generation and rent capture that has hitherto been studied in the context of developed economies, but also contextualizes the rent appropriation literature by focusing on the evolution of a unique type of indigenous organization – entrepreneur–politician alliances. This is consistent with the 'inside out' approach requiring contextualization of the phenomena for study (Tsui, 2006).

We generalize the contextually rich phenomena by building a theory of entrepreneur–politician bargaining, which could be potentially applied to analyse other types of stakeholder bargaining in other emerging markets. Such emerging markets have become fertile grounds for developing new theories (Wright, Filatotchev, Hoskisson, & Peng, 2005).

Limitations and Future Research Directions

Our propositions have taken a general view of entrepreneurs and politicians, ignoring the potential heterogeneity within the two groups. For example, some managers may be more entrepreneurial than others and place more emphasis on firm growth than on cost reductions and efficiency improvements (Wright et al., 2000). In addition, political shrewdness and skills may vary considerably among indigenous entrepreneurs, and such a variance may influence the bargaining outcomes significantly.[9] With respect to politicians, they may also be heterogeneous in terms of their seniority, strategic agendas, and attitudes towards entrepreneurial activities. There may also be heterogeneity in bargaining behaviour between politicians and the various firms they supervise. Further theoretical and empirical research should consider exploring the implications of this heterogeneity for the stability of entrepreneur–partner alliances and the successful completion of management buyouts.

The propositions developed in this paper should be empirically verified by further detailed case studies and large-scale surveys of firms. Our discussion of dynamic interactions between entrepreneurs and politicians also highlights a need for more longitudinal and process-based studies. Future research may explore how entrepreneurs' political strategies evolve with the steady change of China's institutional environment. Given earlier studies of Chinese firms on this front (Tan & Litschert, 1994; Tan & Tan, 2005; Tan, Yang, & Veliyath, 2009), detailed empirical work examining environment-strategy co-evolution in buyout firms and entrepreneurial start-ups is in order. Additionally, scholars may be interested in the life-cycle trajectory of these firms. Do buyout entrepreneurs remain owners of the firms over the longer term or subsequently sell the firms to outsiders? Such analysis would provide an interesting contrast to the conventional Western debate regarding the longevity of management buyouts (Wright, Robbie, Thompson, & Starkey, 1994).

Policy Implications

The efficiency and legitimacy of ongoing privatization buyouts in Chinese industrial sectors have been a very controversial and even an emotional issue in both academic and policy communities (Lang, 2006). This paper offers fresh perspectives that seek to go beyond the emotional level to achieve a more analytical understanding of management buyouts in China that can lead to policy development.

To some extent, similar issues have also arisen in the West as well as in other transition economies. Important influences on the development of management buyout policy have been the consideration of the trade-offs between rent capture and the evidence on improved efficiencies and legitimate entrepreneurial activities (Wright, 2007a). Rather than banning buyouts, policy evolved to incorporate mechanisms that can enable the state and other stakeholders to capture some rents. For example, retained equity stakes by the state, performance-contingent pricing, contractual provisions that enable the state to share in any subsequent gains relating to real estate disposals by the buyout managers (claw-back mechanisms), requirements for wider employee share ownership, etc. became standard features of privatization buyouts in the UK (National Audit Office/CMBOR, 1991).

Central government policymakers in China who care about sustaining the competitiveness of indigenous businesses need to be aware of the complex dynamics of the alliances and to design ground rules regulating the delicate bargaining process. Policymakers concerned both with stimulating economic development in emerging markets as well as with regulating potential abuses need to understand where and how rents are generated and avoid squeezing out the former in their attempts to deal with the latter. In addition, politicians with several subordinate firms may need to recognize that the bargaining outcomes regarding rent appropriation with respect to one management buyout attempt may have implications for other firms supervised by the same state agency. It is also clear that foreign firms competing or cooperating with Chinese businesses need to monitor the continuing development of entrepreneur–politician interactions.

CONCLUSION

This article offers a model describing the dynamic processes by which entrepreneurs interact with politicians in transitional China through the lens of management buyouts. Focusing on the evolutionary paths of Chinese entrepreneur–politician alliances, the model integrates the indigenous context and the rent appropriation literature to identify the evolving bargaining powers of the two parties, the intensity of bargaining over organizational rent, and the eventual stability of the partnership. The model sheds light on the complex determinants of when management buyouts in China would succeed and when they would not. We hope this study adds one more piece to the large puzzle on the role of government and politicians in the life of private enterprises and private entrepreneurs.

NOTES

We are indebted to Anne Tsui, Justin Tan, two anonymous reviewers of the journal, Guy Liu, and the audiences for our presentations at the third IACMR Conference in Guangzhou, China, June 2008, and at the Strategic Management Society 28th Annual Conference in Cologne, Germany, October 2008, for their valuable comments on earlier versions of the paper. Financial support from China's national '211 Project' (project code: 211xk06) and Nottingham University Business School is greatly appreciated.

[1] Founded by Huizhou municipal government in Guangdong Province and a group of enterprising individuals in 1981, TCL has become the world's biggest colour TV maker by acquiring Thomson's TV division in 2004.

[2] Currently the third largest white goods manufacturer in the world, Haier originated from an urban collective plant under the control of the Qingdao municipal government. Haier took off after 1984 when Ruimen Zhang, then a mid-level official in the Qingdao government, was appointed as director of this firm.

[3] Information on Midea is largely based on interviews we conducted in April, 2006.

[4] Owing to the absence of developed capital markets, valuation of firm assets in transition economies is a well-known problem. Previous studies (e.g., Liu et al., 2006) showed that net asset pricing is popular in China. That is, the sale price is, in general, set to equal the difference between the book value of a firm's total assets and the sum of its depreciation and total debts outstanding. Expecting an MBO in the future, the management will have strong incentives to understate the book value. A further discount on the basis of the possibly understated book value, as illustrated here, implies significant rent capture by He and his associates.

[5] The following description of Kelon draws on Huang and Lane (2001) and Liu and Sun (2006).

[6] The US dollar numbers are obtained using the official exchange rate in the 1980s, when the RMB was heavily overvalued (rather than undervalued since early 1990s) by the central government. For example, the official exchange rate in 1985 was $1 = RMB 2.94, though the effective rate was much higher on the underground market. The numbers, including the US dollars, are originally from Huang and Lane (2001).

[7] We thank an anonymous reviewer for offering this interesting observation.

[8] This quotation is from the transcript of a Chinese scholar, who interviewed Ning Pan in the late 1990s.

[9] We thank an anonymous reviewer for offering this valuable insight.

REFERENCES

Ahlstrom, D., & Bruton, G. D. 2001. Learning from successful local private firms in China: Establishing legitimacy. ***Academy of Management Executive,*** 15(4): 72–83.

Ahlstrom, D., Bruton, G. D., & Yeh, K. S. 2008. Private firms in China: Building legitimacy in an emerging economy. ***Journal of World Business,*** 43(4): 385–399.

Alvarez, S. A., & Barney, J. B. 2004. Organizing rent generation and appropriation: Toward a theory of the entrepreneurial firm. ***Journal of Business Venturing,*** 19(5): 621–635.

Amit, R., & Schoemaker, P. 1993. Strategic assets and organizational rent. ***Strategic Management Journal,*** 14(1): 33–46.

Barney, J. B. 1986. Strategic factor markets: Expectations, luck, and business strategy. ***Management Science,*** 42(10): 1231–1241.

Barney, J. B. 1991. Firm resources and sustained competitive advantage. ***Journal of Management,*** 17(1): 99–120.

Barney, J., Wright, M., & Ketchen, D. 2001. The resource-based view of the firm: Ten years after 1991. ***Journal of Management,*** 27(6): 625–642.

Baumol, W. J. 1990. Entrepreneurship: Productive, unproductive, and destructive. ***Journal of Political Economy,*** 98(5): 893–921.

Bowman, C., & Ambrosini, V. 2000. Value creation versus value capture: Towards a coherent definition of value in strategy. ***British Journal of Management,*** 11(1): 1–15.

Bruner, R., & Paine, L. 1988. Management buyouts and managerial ethics. ***California Management Review,*** 30(2): 89–106.

Chang, W., & MacMillan, I. C. 1991. A review of entrepreneurial development in the People's Republic of China. ***Journal of Business Venturing,*** 6(6): 375–379.

Chen, C. J. 2004. ***Transforming rural China: How local institutions shape property rights in China.*** London and New York: Routledge Curzon.

Chen, W. 2007. Does the colour of the cat matter? The red hat strategy in China's private enterprises. ***Management and Organization Review,*** 3(1): 55–80.

Chen, H., & Rozelle, S. 1999. Leaders, managers, and the organization of township and village enterprises in China. ***Journal of Development Economics,*** 60(2): 529–557.

Coff, R. 1999. When competitive advantage doesn't lead to performance: The resource-based view and stakeholder bargaining power. ***Organization Science,*** 10(2): 119–133.

DiMaggio, P., & Powell, W. 1983. The iron cage revisited: Institutional isomorphism and collective rationality in organization fields. ***American Sociological Review,*** 48(2): 147–160.

Dong, X., Bowles, P., & Ho, S. P. 2002. The determinants of employee ownership in China's privatized rural industry: Evidence from Jiangsu and Shandong. ***Journal of Comparative Economics,*** 30(2): 415–437.

Dyer, J. H., & Singh, H. 1998. The relational view: Cooperative strategy and sources of interorganizational competitive advantage. ***Academy of Management Review,*** 23(4): 660–679.

Filatotchev, I., Starkey, K., & Wright, M. 1994. The ethical challenge of management buy-outs as a form of privatization in Central and Eastern Europe. ***Journal of Business Ethics,*** 13(7): 523–532.

Francis, C-B. 1999. Bargained property rights: The case of China's high-technology sector. In J. C. Oi & A. G. Walder (Eds.), ***Property rights and economic reform in China:*** 226–247. Stanford, CA: Stanford University Press.

Frye, T. 2006. Original sin, good works, and property rights in Russia. ***World Politics,*** 58(4): 479–504.

Garnaut, R., Song, L., Tenev, S., & Yao, Y. 2005. ***China's ownership transformation: Process, outcomes, prospects.*** Washington, DC: The International Finance Corporation (IFC) and the World Bank.

Hill, C. W., & Jones, T. M. 1992. Stakeholder-agency theory. ***Journal of Management Studies,*** 29(2): 131–154.

Huang, Y., & Lane, D. 2001. ***Kelon: China's corporate dragon.*** Harvard Business School Case Study, No. 701–053. Boston, MA: Harvard Business School Publishing.

Jensen, M., & Meckling, W. 1976. Theory of the firm: Managerial behavior, agency costs and ownership structure. ***Journal of Financial Economics,*** 3(4): 305–360.

Kay, J. 1993. ***Foundations of corporate success.*** Oxford: Oxford University Press.

Kung, J. K-S., & Lin, Y. 2007. The decline of township-and-village enterprises in China's economic transition. ***World Development,*** 35(4): 569–584.

Lang, L. X. 2006. ***The Chinese-style MBO.*** Beijing: The Oriental Press. (In Chinese.) 朗咸平（2006）。《中国式MBO》。东方出版社。

Li, H., & Zhou, L. 2005. Political turnover and economic performance: The incentive role of personnel control in China. ***Journal of Public Economics,*** 89(9/10): 1743–1762.

Li, P. P. 2005. The puzzle of China's township village enterprises: The paradox of local corporatism in a dual-track economic transition. ***Management and Organization Review,*** 1(2): 197–224.

Liu, G. S., & Sun, P. 2006. The rise and fall of China's corporate dragon: Kelon and its old and new owners. In C. A. Mallin (Ed.), ***International corporate governance: A case study approach:*** 218–245. Cheltenham: Edward Elgar.

Liu, G. S., Sun, P., & Woo, W-T. 2006. The political economy of Chinese-style privatization: Motives and constraints. ***World Development,*** 34(12): 2016–2033.

McMillan, J., & Woodruff, C. 2002. The central role of entrepreneurs in transition economies. ***Journal of Economic Perspectives,*** 16(3): 153–170.

National Audit Office/CMBOR. 1991. ***Auditing management buyouts in the public sector.*** London: National Audit Office.

Nee, V. 1992. Organizational dynamics of market transition: Hybrid form, property rights, and mixed economy in China. ***Administrative Science Quarterly,*** 37(1): 1–27.

Oi, J. C., & Walder, A. G. 1999. Property rights in the Chinese economy: Contours of the process of change. In J. C. Oi & A. G. Walder (Eds.), ***Property rights and economic reform in China:*** 1–24. Stanford, CA: Stanford University Press.

Park, A., & Shen, M. 2003. Joint liability lending and the rise and fall of China's township and village enterprises. ***Journal of Development Economics,*** 71(2): 497–531.

Peng, M. W. 2000. ***Business strategies in transition economies.*** Thousand Oaks, CA: Sage Publications.

Peng, M. W. 2001. How entrepreneurs create wealth in transition economies. ***Academy of Management Executive,*** 15(1): 95–108.

Roland, G. 2000. ***Transition and economics: Politics, markets, and firms.*** Cambridge, MA: MIT Press.

Skaperdas, S. 1992. Cooperation, conflict, and power in the absence of property rights. ***American Economic Review,*** 82(4): 720–739.

Scott, R. W. 2008. ***Institutions and organizations*** (3rd ed.). Thousand Oaks, CA: Sage Publications.

Shirley, M. M., & Walsh, P. 2000. ***Public versus private ownership: The current state of the debate.*** World Bank Policy Research Working Paper, No. 2420.

Suchman, M. C. 1995. Managing legitimacy: Strategic and institutional approaches. ***Academy of Management Review,*** 20(3): 571–610.

Tan, J. 1996. Regulatory environment and strategic orientations in a transitional economy: A study of Chinese private enterprise. ***Entrepreneurship Theory and Practice,*** 21(1): 31–46.

Tan, J., & Litschert, R. 1994. Environment-strategy relationship and its performance implications: An empirical study of the Chinese electronics industry. ***Strategic Management Journal,*** 15(1): 1–20.

Tan, J., & Tan, D. 2005. Environment-strategy co-evolution and co-alignment: A staged model of Chinese SOEs under transition. ***Strategic Management Journal,*** 26(2): 141–157.

Tan, J., Yang, J., & Veliyath, R. 2009. Particularistic and system trust among small and medium enterprises: A comparative study in China's transition economy. ***Journal of Business Venturing,*** 24(6): 544–557.

Tsang, E. W. K. 1996. In search of legitimacy: The private entrepreneur in China. ***Entrepreneurship Theory and Practice,*** 21(1): 21–30.

Tsui, A. S. 2006. Contextualization in Chinese management research. ***Management and Organization Review,*** 2(1): 1–13.

Tsui, A. S., Schoonhoven, C. B., Meyer, M. W., Lau, C-M., & Milkovich, G. T. 2004. Organization and management in the midst of societal transformation: The People's Republic of China. ***Organization Science,*** 15(2): 133–144.

Tsui, A. S., Bian, Y., & Cheng, L. (Eds.). 2006. ***China's domestic private firms: Multidisciplinary perspectives on management and performance.*** Armonk, NY: M.E. Sharp.

Walder, A. G. 1995. Local governments as industrial firms: An organizational analysis of China's transitional economy. ***American Journal of Sociology,*** 101(2): 263–301.

Whetten, D. 2009. An examination of the interface between context and theory applied to the study of Chinese organizations. ***Management and Organization Review,*** 5(1): 29–55.

Wright, M. 2007a. Private equity and management buy-outs. In H. Landström (Ed.), ***Handbook of research on venture capital.*** Cheltenham: Edward Elgar.

Wright, M. 2007b. Venture capital in China: A view from Europe. ***Asia Pacific Journal of Management,*** 24(3): 269–281.

Wright, M., Robbie, K., Thompson, S., & Starkey, K. 1994. Longevity and the life cycle of MBOs. ***Strategic Management Journal,*** 15(3): 215–227.

Wright, M., Hoskisson, R., Busenitz, L., & Dial, J. 2000. Entrepreneurial growth through privatization: The upside of management buyouts. ***Academy of Management Review,*** 25(3): 591–601.

Wright, M., Filatotchev, I., Hoskisson, R. E., & Peng, M. W. 2005. Strategy research in emerging economies: Challenging the conventional wisdom. ***Journal of Management Studies,*** 42(1): 1–33.

Wright, M., Liu, X., Buck, T., & Filatotchev, I. 2008. Returnee entrepreneurs, science park location choice and performance: An analysis of high-technology SMEs in China. ***Entrepreneurship Theory and Practice,*** 32(1): 131–155.

Xin, K., & Pearce, J. 1996. *Guanxi*: Connections as substitutes for formal institutional support. ***Academy of Management Journal,*** 39(6): 1641–1658.

Zhang, J. 2008. State power, elite relations, and the politics of privatization in China's rural industry: Different approaches in two regions. ***Asian Survey,*** 48(2): 215–238.

Pei Sun (sunpei@fudan.edu.cn) received his Ph.D. in Business and Management Economics from Judge Business School, University of Cambridge, UK. He is Associate Professor in Industrial Economics at the School of Management, Fudan University, China. His research interests concern corporate governance, firm strategy, and industrial organization in emerging economies, especially China. His research papers have appeared in journals such as *Cambridge Journal of Economics*, *Economics Letters*, and *World Development*.

Mike Wright (Mike.Wright@nottingham.ac.uk) earned his Ph.D. at Nottingham University where he is Professor of Financial Studies and Director of the Centre for Management Buyout Research. His research focuses upon private equity, entrepreneurship and emerging economies. He is an associate editor of *Strategic Entrepreneurship Journal* and consulting editor of *Journal of Management Studies*.

Kamel Mellahi (K.Mellahi@sheffield.ac.uk) earned his Ph.D. at the University of Nottingham. He is Professor of Strategic Management and Head of Management Division at Sheffield University Management School. His research focuses on management in emerging economies, non-market strategies and organizational failure. He has over 50 papers published or accepted for publication in such journals as *Strategic Management Journal*, *Journal of International Business Studies*, *Journal of Management Studies*, *Long Range Planning*, *International HRM*, *Journal of World Business* and *British Journal of Management*. He has provided policy advice to numerous public and private organizations.

Manuscript received: July 7, 2008
Final version accepted: August 17, 2009
Accepted by: Justin Tan