

Transformation of State-owned Enterprises in China: A Strategic Action Model

Runtian Jing (井潤田)¹ and E. Patrick McDermott²

¹*University of Electronic Science and Technology of China, China, and* ²*Salisbury University, USA*

ABSTRACT Transformation is a vital challenge for Chinese state-owned enterprises (SOEs) and their top managers. To explore this increasingly important topic, we first summarize the institutional context of SOE transformation and the conflicting interests and interdependent relationships of six major actors as inside/outside stakeholders. Based on the strategic action view of institutional analysis, we emphasize the role of the change agent's level of aspiration and political skills in transforming an SOE. Then, through inductive case studies on the transformation of three SOEs, we address how top managers, acting as change agents, can initiate and engage in institutional change through strategic actions such as negotiation, manipulation, and coercion; we also illustrate how they adopt different actions to influence different actors. Based on the inductive results, we develop a theoretical model, which we refer to as the 'strategic action model' that shows how the aspiration level, political skills, strategic actions, and change outcomes interrelate and offer insights into the strategic action of top managers as change agents. Our most important contribution is revealing the interplay between the proactive role of inside actors as change agents and the enabling condition of institutional context.

KEYWORDS aspiration level, political skill, state-owned enterprise, strategic action, transformation

中国国有企业改制：一个战略行动模型

摘要

改制是中国国有企业及其高层管理者面临的重要挑战。为了探究这个愈来愈重要的问题，我们首先总结了国有企业改制的制度情境，以及六个主要内外部利益相关者之间的冲突利益和相互依赖关系。基于战略行动视角的制度分析，我们强调变革推动者的抱负水平和政治技能在国企改革中的作用。然后，通过对三个国企改制的归纳性案例研究，我们指出高层管理者作为变革推动者，如何通过谈判、操纵和强制等战略行动，发起和深化制度变革；我们也分析了他们如何采用不同策略来影响不同行动者。基于这些归纳结果，我们开发了一个理论模型，即所谓的“战略行动模型”，用以表征抱负水平、政治技能、战略行动和变革结果之间的相互关系，进而指明高层管理者作为变革推动者的战略行动。我们最重要的贡献在于，揭示内部行动者作为变革推动者所扮演的主动性角色和制度情境所具有的诱发性条件之间的相互作用。

关键词：抱负水平，政治技能，国有企业，战略行动，改制

INTRODUCTION

Jialing Chemical Plant (JCP) was once a state-owned chemical firm located in Chongqing city. From 1994 to 1996, JCP had incurred 20.7 million RMB in losses, its liability ratio reached as high as 91 percent, and it was nearing bankruptcy. To reverse organizational decline, Chief Executive Officer (CEO) Li Shouchuang and his colleagues decided to transform JCP into a private firm. After months of property estimates, repeated studies of the transformation plan, and much hard bargaining on the selling price, JCP and the local government that owned JCP reached an agreement. Employees bought the firm for only 4.5 million RMB via a joint stock company with an employee stock ownership plan (ESOP). JCP had assets of 150 million RMB at the time of privatization. During the transformation process, CEO Li was accused of embezzling state-owned property but was eventually acquitted by the local court. Regardless of the legal wrangling, the transformation was a success, recovering the firm from the brink of bankruptcy. Three years later, JCP began to turn its losses into gains, realizing profits of more than 6 million RMB in 2000 (Chongqing Branch of CITIC Industrial Bank, 2001).

JCP is not alone; many state-owned enterprises (SOEs) in China rely on transformation to enhance efficiency. With the fast-paced economic reforms that occurred post 1990, the institutional disadvantages of SOEs have become increasingly evident. The defects of corporate governance and minimal incentives for sales and profits that characterize SOEs have made transformation a clear strategy for improving performance (Bai, Lu, & Tao, 2009; Nee, 1992). Yet changing the ownership structure is only a part of the task of transformation (Uhlenbruck, Meyer, & Hitt, 2003). Organizational changes inside firms, such as changes in incentive systems (Benson & Zhu, 1999) and labor relations (Guthrie, 1998) are essential.

In this study 'transformation' is defined as radical change within an SOE with regard to its ownership structure and related managerial systems such as its incentive systems and labor relations. Most empirical studies have reported a positive effect of SOE transformation (Bai et al., 2009), with an average profit rate increase of 3.6 percent after change (Garnaut, Song, Tenev, & Yao, 2005).

However, as the legal troubles faced by CEO Li indicate, transformation can be risky and difficult. Various stakeholders have different, sometimes contradicting attitudes and interests, and these attitudes and interests can be problematic during a transformation (Chen, 2006). Moreover, financial constraints are significant, since the cost to compensate employees is very high, especially for large SOEs. As a result, a survey by the World Bank indicates that over 80 percent of medium and small SOEs have converted to joint stock entities, while only 52.7 percent of large SOEs have decided to transform (Garnaut et al., 2005). A recent study shows that large firms with private control in the top quintile ranked by market value on the Shanghai and Shenzhen stock exchanges have grown from a miniscule 3.3 percent in 1999 to a modest 14.3 percent in 2007, indicating a still overwhelmingly

state-controlled entity structure (Walder, 2011). Therefore, many SOEs, especially large ones, are still waiting for reform to occur.

From a theoretical viewpoint, the persistence of 'state-owned' institutional arrangements can be easily explained. Here, 'institutional arrangement' refers to the governing structure of a group of actors 'with specifically designated rights and duties' (Hargrave & Van de Ven, 2006: 866). Although aware of the advantages of transformation, many SOEs cannot overcome their internal inertia and resistance to change and thus maintain the status quo. A more striking question is their various strategies responding to market pressures, that is, why some firms can successfully accomplish transformations while others cannot, even within a similar institutional context. According to the 'embedded agency' proposition all actions and values of inside actors are formulated by their embedded institutions (Battilana, Leca, & Boxenbaum, 2009). Therefore, most institutional theorists suggest that transformational change can only occur when spurred by outside actors (Seo & Creed, 2002).

In this study, the transformation stories of SOEs like JCP inspire us to explore the role of internal top managers as change agents. Thus, we elaborate a strategic action model of SOE transformation based on Fligstein's (2001) previous works, and highlight the proactive roles of top managers and their enabling conditions during institutional change. Based on inductive studies of the transformation process in three cases, we assert that change agents with sophisticated political skills and high aspirations can exert more influence upon the process and outcomes of transformation – via strategic actions such as negotiation, manipulation, and coercion – despite the strong control and constraints put in place by other actors. Our overall contribution is a theoretical model of Chinese SOE transformations, 'the strategic action model', which contributes to the literature with regard to two aspects: the enabling condition of strategic actions and the aspiration level of change agents.

LITERATURE REVIEW

'Institution' refers to the humanly devised schemas, norms, and regulations that enable and constrain the behavior of social actors and make social life predictable and meaningful (Powell & DiMaggio, 1991). Many recent studies on organizational institutionalism have focused on how organizational structures and practices achieve their legitimacy or how institutional elements are formulated inside organizations (Suddaby, Elsbach, Greenwood, Meyer, & Zilber, 2010). The 'taken-for-granted' view of institutionalization reveals the phenomenological nature of institutional theory. Thus, there is limited theory regarding social action in the literature on organizational institutionalism, which is addressed by Scott (1994: 60) in the following way: 'Although the focus in institutional theory is on symbols, meanings and rules, I believe it is essential that we do not lose sight of the human agents that are creating and applying these symbols, interpreting meanings, and formulating, conforming to, disobeying, and modifying these rules'.

A notable exception, Fligstein (2001) proposes a strategic action approach toward institutional analysis based on his unique political-cultural illustration. Instead of taking the prevailing view that the existing rules are the constitutive building blocks of institutional arrangement, this approach emphasizes the proactive attempt by the strategic actors to cooperate with others during the social construction process. Some actors are often more skillful in negotiating with powerful actors, building coalitions, and winning obedience from others. These actors can serve as leaders in the organizational field since they are able to get others to act collectively. Several empirical studies of strategic action were conducted under organizational settings such as the French Cancer Centers (Castel & Friedberg, 2010) and the European Defense Industry (Fligstein, 2006).

An important issue where clarification is necessary is the enabling condition of strategic actions. The depiction and assumptions of actors as powerful, heroic figures are often criticized as overlooking institutional constraints (Delmestri, 2006), and also criticized as being unable to offer a viable endogenous explanation of institutional change within the tenets of institutionalism (Meyer, 2006). Inspired by the political co-evolutionary perspective (Rodrigues & Child, 2008), we recognize the functions of both institutional effects and strategic actions in defining and changing institutional arrangements, and argue that there is an interplay between them. Specifically, strategic actions would become more salient in a conflicting institutional context, where the 'taken-for-granted' meanings of institutional orders are difficult to be formulated among various actors.

One important way for change agents to downplay their institutional embeddedness is through political actions within the relational frameworks they have with other powerful actors in the institutional environment (Rodrigues & Child, 2008). For example, during the process of SOE transformation, the authority relation of top managers proves to be very important in determining the outcomes of change as well as the career development of these managers (Ma, 2012).

Thus, under the conflicting institutional context, 'the formation and reproduction of social arrangements are basically political processes involving various participants who have divergent interests and unequal power' (Seo & Creed, 2002: 229). In our exploration of social arrangements in the SOE transformation process we do not focus on general social skills but rather on the political skills of change agents. Here, political skills mean 'the ability to effectively understand others at work, and to use such knowledge to influence others to act in ways that enhance one's personal and/or organizational objectives' (Ferris, Treadway, Perrewé, Broucer, Douglas, & Lux, 2007: 127).

In this study, change agents (or the so-called 'strategic actors') are defined as the top managers of a certain firm. Because they occupy a role that spans the boundary between outside and inside an organization, top managers have more chances to perceive conflicting interests and approaches among various actors and to embrace pressures to transform. Moreover, top managers hold a high-ranking position in

the hierarchy from which they can mobilize resources for change (Battilana et al., 2009).

Change agents can affect organizational processes and outcomes through their strategic actions, and their political skills affect these actions (Mintzberg, 1985). We examine three kinds of strategic actions related to political skills: negotiation, manipulation, and coercion. Negotiation means ‘strategic interaction among the involved parties to develop agreements and arrangements that enable them to carry out their work’ (Day & Day, 1977: 130). Based on the symbolic interaction view, negotiated order theory highlights the role of this kind of micro-political action during the construction of institutional arrangements (Strauss, 1978). Skilled negotiators can develop friendships and build strong coalitions among various actors, despite their divergent interests. By acting collectively, they can exert more influence than they could independently.

Manipulation refers to the ‘purposeful and opportunistic attempt to co-opt, influence, or control institutional pressures and evaluations’ (Oliver, 1991: 157). For example, experts can influence political parties by brokering their industrial knowledge to reform a water management policy (Gutiérrez, 2010). Using a manipulation action, change agents seek to exert power over the expectations of others or the sources that seek to enforce those expectations.

Coercion generally results from an imbalanced power structure whereby one actor can severely deprive the choice of another actor by ‘the expectation of punishment created by threat’ (Molm, 1997: 51). The relative disadvantage of adopting reward power would increase the intention to act coercively, which is often aimed at a specific event. The enabling condition of coercion is paradoxical, often implying an ‘interdependent rather than independent relationship’ between power-advantaged actor and power-disadvantaged actor (Molm, 1997: 52).

As another complement to the strategic action approach, we propose that the aspiration level of the change agent is important in initiating these sorts of strategic actions. The consequences of transforming are less predictable than the consequences of not transforming, making the change agent’s high aspiration levels pivotal to championing the risky, innovative actions required by organizational change (Greve, 1998). Here, aspiration level is defined as ‘the smallest outcome that would be deemed satisfactory’ by the actor (Schneider, 1992: 1053). When ongoing performance is below the aspiration level, more innovative actions would be undertaken by the actor in an attempt to initiate organizational transformation. Hence, top managers with high aspiration levels would more likely act as change agents since they demand more when facing bad performance.

CHINA AS THE RESEARCH SETTING

The institutional framework of economic reform in China is called a ‘regionally decentralized authoritarian system’ by economists (Qian, 2000). This environment

is characterized by highly centralized political and personnel controls at the national level, and a regionally decentralized administrative and economic system (Krug & Hendrshke, 2008). Unlike Russia and some other countries where privatization took place overnight, China reformed its SOEs in a gradual and measured fashion. Appendix I shows some major events and policies relating to SOE transformation in China. In the early stage of reform, instead of renovating the property rights system, the government improved the efficiency of SOEs by taking measures to marketize them to different extents, including providing market information for SOEs, increasing their autonomy, and granting managers relevant incentives (Groves, Hong, McMillan, & Naughton, 1994). In a context of high pressure caused by the fact that most SOEs had been losing money since the early 1990s, the central government promoted a transformation policy to motivate organizational operations based on market competition (Walter, 2010). This nationwide reform gradually created the institutional arrangement of SOE transformation as discussed here.

In this context, there are at least six major actors within two groups: three outside actors (central government, local government, and parent company) and three inside actors (top managers, middle managers, and employees).^[1]

Central Government

SOE reform is a gradual evolution encouraged by the market and promoted by the government (Child & Lu, 1996). With this process, the policy made by the central government can pace the rhythm of the reform, engaging in ‘reduced or selective interference’ (Krug & Hendrshke, 2008: 84). Before the reform, the largest shareholder of SOEs was the state. To solve the principal agency problems, in 2003 the State-owned Assets Supervision and Administration Commission (SASAC) was established as a government body to represent the interests of the state as a shareholder at both the central level and various local levels (Naughton, 2008). The main responsibilities of the SASAC include protecting and increasing state assets, reforming and restructuring SOEs, and harvesting the dividends of state assets from SOEs (Walter, 2010). At the central level, the SASAC is a special ministerial-level institution directly under the State Council. Unlike other ministries, the central and local SASACs have no direct affiliation with one another, but there is a vertical relationship between supervision and guidance. The local SASAC actually serves as part of local government in charge of SOE regulation, and has a loose relationship with the central SASAC. Meanwhile, an excessively large number of SOEs at each level makes the supervision of SASAC symbolic rather than substantive. Walter argues that ‘to date, SASAC has been unable to assert itself’ (Walter, 2010: 106). As a result, the loss of state assets was a serious problem during the transformation process, usually manifested in the form of price discounts when selling state assets. According to the World Bank’s survey report, the average discount ratio of the reformed SOEs was

20.4 percent, and the true situation was more serious since ‘most firms surveyed did not want to report whether they had received a discount of state assets’ (Garnaut, Song, & Yao, 2006: 49). In summary, the central government provides the ‘initial trigger’ and ‘institutional space’ for SOE reform (Krug & Hendrshke, 2008: 84), but does not have a direct impact on the transformation process of local SOEs despite its role as the owner of state assets.

Local Government

Three factors allow local governments to play an important role in reforming SOEs. First, they can set specific local rules for transformation that were not nationally prescribed, such as the minimum of state ownership, the level of private shares, or the prices of assets (Krug & Hendrshke, 2008; Meyer & Lu, 2005). Second, they are motivated to help local SOEs transform since each local region competes with others on economic development indices, such as the growth rate of GDP and the tax and profits of the annual budget. Moreover, economic success can affect the promotion of local governors in different regions (Sun, Wright, & Mellahi, 2010), so the huge accumulated debts of local firms demand that their government welcomes transformation to increase revenue for the local economy (Li & Rozelle, 2003). Third, local governments can provide essential support and resources for transformation, for instance, providing employment opportunities to employees who have been laid off, and helping firms to find external investors.

Parent Company

Local SOEs are also under the control of their parent company, if a group affiliation exists. Since the mid-1980s, the Chinese government has initiated business groups as a means of facilitating SOE reform from a hierarchical system to a market-based system (Child, 1993; Yiu, Bruton, & Lu, 2005). Many business groups were established by combining some already existing local firms, resulting in the business group as the latecomer to the relationship (White, Hoskisson, Yiu, & Bruton, 2008). Some have set up their own subsidiary firms interdependent of their corresponding government’s national and local structures (Yiu et al., 2005); these subsidiaries are under the dual administration of both the local government and their parent company. The parent company has the authority to manage the strategic portfolio of subsidiaries, to replace or appoint its top managers, and to allocate or integrate resources across firms. Such parent control is very heavy and was even more so in the reform era (Carney, Shapiro, & Tang, 2009; Meyer & Lu, 2005). As a result, local SOEs that retain group affiliation experience more inertia in the face of changing market conditions.

Top Managers

As change agents, top managers play a decisive role. During the early stage of the reform, top managers of SOEs were not equipped to work in the context of markets because of their lack of knowledge and experience in such an environment (Peng & Health, 1996). However, the influence of the market economy has promoted young managers with new market focused skills to join SOEs (Boisot, Child, & Redding, 2011). This market focus has meant that education and expertise have become important for upward mobility. The dual path model highlights distinctive mechanisms in China's 'cadre' system (Walder, 2011; Walder, Li, & Treiman, 2000; Zhao & Zhou, 2004). The transfer to a private entity creates a good opportunity for top managers both to realize their organization's value and to accumulate personal wealth. In the meantime, the local government has also charged them with the political responsibility of avoiding widespread unrest among employees during transformation. Just as CEO Wu Xiangming of the Taisheng case in this study cautions, once violent events such as bloodshed or death occur during a confrontation with employees, the transformation will be stopped by governmental interference, and the reformer will be dismissed or even sentenced to jail. Thus, the potential political risks in transformation sometimes prevent top managers from making decisions on reform.

Middle Managers

Middle managers can either hinder or enforce transformation, depending on the transformation plan. Decades of operations within stable institutions that provided benefits such as lifelong job security, seniority-based promotion, wage increases, and extensive welfare programs have made middle managers less focused on new knowledge and innovation and have contributed to their lack of experience in a market environment (Peng & Health, 1996; Yu & Egri, 2005). The uncertainty associated with transformation can cause many middle managers to feel anxiety about their careers and lead them to resist change. The lack of support by these middle managers greatly hinders the change process, due to their unique bridging functions between top managers and employees (Balogun, 2003). In their interactions with employees, they may use a variety of signs and signals in their behavior, actions, and words to infer their real meaning. This is very important during the change process in which the top manager must identify from where resistance will come. To ensure their commitment to transformation, some conciliatory actions or policies such as Management Buy-outs (MBO) are used (Sun et al., 2010). In one of the most influential cases, the Midea group successfully transformed itself into a private company in 2000 by MBO. Mr. He Xiangjian, the founder and chairman, admitted that 'incentives were the most crucial problem I was confronted with before the MBO' (Li, Wright, & Scholes, 2011: 377). However, as addressed later

in the Sanjian case, the incentive function of an MBO plan requires good negotiation with the government on the selling price of state equity.

Employees

As the least powerful actor in the organizational field, lower-level employees often become the major losers in the reform process (Chen, 2006). Based on case studies of three firms, Chen (2006: 44) noted that employees tend to see transformation as 'extremely unfair and unjust', and, due to several decades' immersion in socialist ideology, as a 'class-conflict situation'. Historically, SOEs have operated as semi-enclosed communities, with 'life-time employment' and 'cradle to the grave' welfare coverage (Benson & Zhu, 1999: 58). When reform occurs, the compensation will be very sensitive for the laid-off employees who are 'going off sentry duty'. Compensation is calculated according to years of service in the firm, in order to terminate long-term employment and account for the potential loss of fringe benefits (Garnaut et al., 2005). Compared with other actors, employees have hardly any power to participate in decision-making, and reformers always insufficiently consider employees' interests. Furthermore, labor unions in Chinese firms are structured differently from those in Western nations, and are designed to assist rather than challenge management decisions (Lu, Tao, & Wang, 2010). The only way for employees to exercise their influence is by engaging in or threatening strikes, slowdowns, sabotage, and expressing their demands through collective action (Garnaut et al., 2006). This instability concerns local governments, which are charged with ensuring a 'harmonious society'. Thus the change agent may be forced to accept certain requirements from employees through such external pressure.

In summary, the institutional arrangement of SOE transformation represents two significant features: (1) conflicting interests and (2) interdependent relationships. With regard to the first feature, concerns relating to the selling price of state assets are different for the central government, the local government, and top managers; concerns relating to ownership structure are different for the parent company and its subsidiaries; and concerns relating to layoff plans are different and even contradictory among various actors. With regard to the second feature, the achievement of interests of each actor through transformation is dependent upon the commitment of others – there is no dominant actor. Even as the actor with the least power, employees can influence the transformation process through collective action. Here, one incredulous fact is that the government has never made 'an official national policy [of transformation] or national legislation to dictate the process' (Chen, 2006: 45). Therefore, under such a conflicting context, there are actually no 'taken-for-granted' meanings or rules of transformation. Transformational change is possible because these conflicts and interdependence can not only shift the mindset of the actors, but also provide meanings and

resources for alternative actions (Battilana et al., 2009). However, the success of transformation is highly dependent upon the initiatives and endeavors of change agents to skillfully reconcile the conflicting interests of various actors through strategic actions.

METHODS

There are clearly some difficulties in bringing empirical data to this study, given sensitivities around disclosure. The qualitative data often provide a good understanding of the process dynamics, which explains why a case study is adopted in this study (Yin, 1994).

Case Selection

Selection of cases is a challenging issue for case studies (Eisenhardt, 1989). This study is based on the transformation of three SOEs located in Sichuan Province, one of the earliest provinces in China to implement transformation. On one hand, these SOEs operated in different industries and had different connections with the government and their parent company, which allows for comparison and thus diversification. On the other hand, each was located in Sichuan province so the similarity in geographical and institutional environments makes it easier to rule out unobserved heterogeneities that may confound the comparison. Table 1 shows the characteristics of the three firms, located respectively in Chengdu (the capital city of Sichuan Province), Zigong, and Leshan. We summarize the transformation profiles of the three cases in Table 2, with a brief description, as follows.

Taisheng is one of the earliest cement plants in Sichuan province, and 70 percent of its equity was held by its parent company, Ehua group, before transformation. In September 2001, after the tenure of the previous leaders of Taisheng expired, the Vice General Manager of Ehua Group, Wu Xiangming, assumed the position of CEO of Taisheng. At that time, Taisheng was performing poorly. In order to reverse organizational decline and strive for autonomy from outside control, Wu Xiangming decided to transform Taisheng by MBO in 2002.

Similarly, Shenggang's performance also declined continuously before transformation. Its parent company, Huadian Group, founded in 1984 with headquarters in Deyang City, was a central SOE. In October 2001, the top management team of Shenggang was changed, and Mr. Du Yuanzhe became its CEO. At this time, Huadian suggested giving funds to Shenggang and reorganizing it. As a result, part of its assets would be transferred to Huadian without any compensation. CEO Du couldn't accept this plan because he did not want Shenggang to lose its autonomy. Instead, he put forward an alternative plan of transformation.

Sanjian was assigned to Huaye Group as a subsidiary by the government in 1994, and Huaye was a central SOE with headquarters in Beijing. With the rapid

Table 1. Cases and interviews per case

<i>Cases</i>	<i>Taisheng</i>	<i>Shenggang</i>	<i>Sanjian</i>
Location	Leshan City, Sichuan Province	Zigong City, Sichuan Province	Chengdu City, Sichuan Province
Year of founding	1939	1966	1955
Number of employees (before transformation)	2,447 (2001)	7,851 (2001)	8,106 (2004)
Business description	Provides cementing material products, special engineering material products	Provides different kinds of boilers, station donkey engines	Provides steel manufacture engineering, real estate, concrete products
High-level interviews	3 (named as HA1-3)	4 (named as HB1-4)	3 (named as HC1-3)
Background of interviewees	HA1: Wu Xiangming (change agent) HA2: Liu Gang (parent company) HA3: Chen Hua (local government)	HB1: Du Yuanzhe (change agent) HB2: Cheng Xutai (Du's assistant) HB3: He Wei (parent company) HB4: Wei Qiang (local government)	HC1: Chen Yongxin (change agent) HC2: Wang Hui (chairman of union) HC3: Yu Fen (parent company)
Low-level interviews	6 (named as LA1-6)	9 (named as LB1-9)	8 (named as LC1-8)
Background of interviewees	LA1-3: middle managers LA4-6: employees	LB1-4: middle managers LB5-9: employees	LC1-3: middle managers LC4-9: employees
Total number of interviews	9	13	11

Table 2. Transformation profile of each case

<i>Cases</i>	<i>Taisheng</i>	<i>Shenggang</i>	<i>Sanjian</i>
Objective for organization	Change of ownership and organizational culture	Reduce social obligations and reverse declining performance	Accomplish the plan assigned by parent company
Objective for change agent	Managerial autonomy based on marketized institution	Not considered	Avoid political risk
Background	<ul style="list-style-type: none"> • Turnover of top managers • Bad performance (net profit loss as 6.6 million RMB, property liability rate as 95%, 2001) 	<ul style="list-style-type: none"> • Turnover of top managers • Bad performance (net profit loss as 181.2 million RMB, property liability rate as 98%, 2001) • Risk of autonomy losing by the integration attempt of parent company 	<ul style="list-style-type: none"> • Integration strategy by parent company (aiming to enter the World's top 500 firms by 2010) • Good performance due to the rapid growth of real estate industry
Transformation plan	<ul style="list-style-type: none"> • Reduction of 50% employees • Short-term labor contracts with remainders • Joint stock ownership (20% parent company, 30% managers, 50% outside investors) • Social obligations (school) transferred to local government 	<ul style="list-style-type: none"> • Reduction of 50% employees • Short-term labor contracts with remainders • Main company unchanged • Auxiliary companies changed into 10 private firms owned by employees, managers, or outside investors • Social obligations (hospital, schools, utility system) transferred to local government 	<ul style="list-style-type: none"> • Reduction of 25% employees • Main company changed into joint stock ownership (60% state, 20% managers, 20% outside investors) • Auxiliary companies changed into 12 private firms owned by employees, managers, or outside investors • Social obligations (hospital, schools, utility system) transferred to local government
Process	<ul style="list-style-type: none"> • 09/2001: Turnover of top managers, Wu was promoted as CEO from parent company • 03/2002: Start-up of transformation • 05/2002: Mass incident occurred. Wu was blocked at his office for two days and one night • 10/2002: All the tasks were finished 	<ul style="list-style-type: none"> • 10/2001: Turnover of top managers, Du took CEO's position as inside promotion • 09/2002: Huadian attempted to reorganize and control Shenggang by asset exchange • 12/2002: Transformation was started up by Du's new plan • 07/2003, 04/2004: Mass incidents occurred. Employees blocked local roads. • 12/2004: All the tasks were finished 	<ul style="list-style-type: none"> • 10/2004: Transformation plan was assigned by Huaye • 12/2004: Startup of transformation • 03/2005, 08/2005, 07/2006, 09/2006: Mass incidents occurred. Employees congested public transports, and sat in the central square of Chengdu city • 03/2007: Transformation had to be terminated

growth of the real estate industry, Sanjian enjoyed very good market performance before transformation. In 2004, Huaye decided to reform its group affiliations to support its overseas strategy. First, Huaye sought to change its subsidiaries from SOEs into pluralistic shareholder firms, privatized their hospitals and schools and laid off some employees. Then, after integrating all its subsidiaries, Huaye aimed to become one of the world's top 500 firms before 2010. The transformation served the parent company's integration strategy; Sanjian's top managers accepted the whole plan without any preparation for this sudden reform.

Data Collection

We collected data for each case from four perspectives: (i) firm (its history and reform motives); (ii) top managers (personalities and work experience); (iii) transformation (its process and results); and (iv) external environment (parent company and local government). As Table 1 shows, 10 top managers and 23 employees were interviewed. For each firm, we traced the transformation through documents and extensive interviews. By tracing the transformation from the perspectives of different actors, we were able to ensure the verisimilitude of each case story.

The data were collected between February 2005 and March 2007. At that time, the transformations of Taisheng and Shenggang were complete, and data concerning change events and processes were recalled by the interviewees and checked against relevant documents; the transformation of Sanjian was still ongoing. As Table 1 shows, high-level interviews were conducted with top managers from inside the firm and with those outside the firm, from the parent company and local government; low-level interviews were conducted with middle managers and employees. All the interviews were conducted with a standard set of questions categorized as follows: (i) Interview of change agents. These usually lasted between 120 and 150 minutes. The open-ended questions included those about the background and process (starting point, objective setting for firms and themselves, key events, ending point) of the transformation; execution strategy and preparation involved; attitude of major stakeholders (government, parent company, managers, and employees); actions to win their support; expected and unexpected difficulties attending transformation – including any mass incident and its solutions; the change outcome and their evaluations; and their working experience. (ii) Interview of other high-level managers. These usually lasted between 60 and 90 minutes. The open-ended questions included those concerning the necessity of the transformation; questions about possible changes in attitude; their involvement during the reform; and their remarks on the reformer and his change strategy. (iii) Interview of low-level employees. These usually lasted between 30 and 60 minutes. The open-ended questions included questions about their attitude toward the firm and the reform; their involvement during the reform; their impressions of the mass incident and its results; and their working experiences. All the interviewees were

encouraged to give their comments on some typical change events selected by the researchers (e.g., the unrest event, the setup process of transformation objectives). These comments were adopted as quotations in the analysis and results.

Three investigators conducted the interviews (the first author attended all the interviews), with one investigator primarily responsible for questioning and the other two mainly responsible for taking notes. Within 24 hours of each interview, the detailed notes were finished. Some follow-up conversations and phone calls were made to check the consistency of the facts for each case. The first author then read all the interview transcripts, notes, and post-interview summaries and wrote a narrative for each case, and four other researchers who attended the interviews checked the narrative and quotations for accuracy.

Quantitative data, such as financial performance, market shares, and number of employees, were derived from both public and internal documents, including annual financial reports, newsletters, articles or dissertation papers written about the case firms. These data sources allowed us to triangulate our findings to build stronger interpretations (Yin, 1994).

Data Analysis

One tactic used to search for cross-case patterns is to select categories or dimensions, and then look for their group similarities and couple them with intergroup differences (Eisenhardt, 1989). To do so, we first examined the aspiration levels and political skills of each change agent as well as the strategic actions and change outcomes of the three cases. Here, change outcomes are indicated by two dimensions: (i) Organizational development, which means a relative change in market and financial performance after transformation compared with the situation before, indicated by the market and financial data. 'Successful development' means a better performance than before, while 'failed development' means a worse performance than before. (ii) Change agent's legitimacy, which refers to the reformer's position affected by various actors, measured by facts such as 'lost', 'no change', or 'enhanced'. Other constructs (aspiration level, political skills, and strategic actions) were subjectively coded by employing a seven-point scale ('1' to '7' representing 'lowest' to 'highest', respectively), and the scores were given by five researchers (including three investigators into each case) using the following process. First, some principles and questions about the coding scheme were discussed by all researchers; then, each one was asked to code the construct based on case narrative and their perceptions independently; next, their scores were anonymously collected and compared. If there was a large difference (≥ 3) between two scores given on a certain construct, the five scorers would meet to exchange ideas about their coding criteria. In such instances (for example, in scoring the political skills of Du, as addressed later), the difference was often caused by conflicting principles or concerns. After reaching an agreement on the coding scheme here,

the researchers were asked to score the construct again independently. Finally, the average value was calculated based on the scores given by five individuals and represented as 'low/middle/high' based on the following transformation: 'low' being the rounded average value between 1.0 and 2.9; 'middle' being between 3.0 and 5.0; and 'high' being between 5.1 and 7.0. The internal consistency index (Cronbach's alpha) of the scores for the three cases is 0.91.

Based on 'replication logic', both within-case analysis and cross-case analysis was conducted (Yin, 1994). Within-case analysis focuses on the logic of linkages between aspiration level, political skills, strategic actions and change outcomes, to unfold the transformation process for each case. Once the underlying process was clearly conceived for each case, we then compared and verified these patterns across different cases. While constructing patterns and theoretical conjectures, we continued to extend our theory via case narratives. We also proposed alternative frameworks to identify the conceived patterns and examined theoretical cohesion underlining these alternative explanations. Based on the iterative cycle of this theory creation and competition process, we gradually acknowledged the final themes as presented in the results section below.

RESULTS

Change Agents

Table 3 summarizes the background of the change agents, as well as their aspiration levels and political skills. The latter represent salient influence upon the transformation of SOEs.

In the first case, Taisheng, Wu aimed to improve both the autonomy of the firm and his own autonomy through transformation (HA1, Table 3), since working for a long time under a state-owned institution suppressed his opportunity for self-achievement. He determined to create 'his own domain' (HA2, Table 3), which he had prepared for over many years in accumulating both knowledge and resources (HA1, Table 3). Therefore, his aspiration level is rated as 'high' (6.4) by the five scorers.

In Shenggang, as a leader promoted from inside the organization, Du loved his firm and decided to reverse the bad situation with little consideration for his own career (HB1, Table 3). Thus, his aspiration level is rated as 'high' (6.2).

By contrast, in Sanjian, Chen did not subscribe to the role of top managers to change the destiny of SOEs, and he took the transformation just as a task assigned by the parent company (HC1, Table 2). Therefore, his aspiration level is rated as 'low' (2.2).

According to his leaders, colleagues, and employees, Wu was politically adept (HA3, Table 3; LA4, Table 4). Hence, his political skills are rated as 'high' (6.8). Similarly, Chen sought power, and conducted considerable politicking to get

Table 3. Change agent in each case

Cases	Taisheng	Shenggang	Sanjian
Name	Wu Xiangming	Du Yuanzhe	Chen Yongxin
Tenure [†]	1 year, outside appointed	1 year, inside promoted	7 years, outside appointed
Age [‡]	37 years old	38 years old	46 years old
Aspiration level	<p><i>High</i> (6.4)[‡]</p> <ul style="list-style-type: none"> • 'Institution is constructed by people. To change it, the key is to connect with key people'. (HA1) • 'Wu was once my assistant. His entrepreneurial spirit would be constrained by the state owned institution. He is young, and ought to have his own domain'. (HA2) • 'As early as being Liu's assistant, I began to prepare my knowledge and resources of transformation in a certain subsidiary. Finally it happened in Taisheng'. (HA1) 	<p><i>High</i> (6.2)</p> <ul style="list-style-type: none"> • 'Institution is changeable, but with high cost'. (HB1) • 'After my appointment as CEO, my objective is to reverse the bad situation here, where I have worked for over 16 years'. (HB1) • 'Du does not concern too much about himself. I sincerely admire his courage to challenge the existing institutions'. (HB2) 	<p><i>Low</i> (2.2)</p> <ul style="list-style-type: none"> • 'Institution is powerful, but we can adapt to it'. (HC1) • 'Destiny of SOEs is almost determined, no matter how much efforts you want to change it'. (HC1) • 'Steady is more important than smart to the top managers of SOEs'. (HC2) • 'Our promotion system values the cadres without big mistakes and contributions, rather than those with significant contributions but also mistakes'. (LC1)
Political skills	<p><i>High</i> (6.8)</p> <ul style="list-style-type: none"> • 'Employees are like your child, who needs your care but not spoiling. On my coming here, I told them: "You may blame me in this year, but will thank me in the future"'. (HA1) • 'I need to control my career instead of waiting for outside forces to kick in. Sometimes the opportunity is just a momentary slip'. (HA1) • 'Wu is quite rare in the state owned system. He is politically-matured and has his own unique sense of worth'. (HA3) 	<p><i>Middle</i> (4.6)</p> <ul style="list-style-type: none"> • 'I learned many courses during my MBA study. But our change practice is so different from the theory'. (HB2) • 'Everything needs to be viewed in a long run. Temporary sacrifice and unfairness is worthy to win the final success'. (HB1) • 'As a manager in SOE, you often need to visit your leaders' families at New Year's time, and send them expensive gifts or even money sometimes. However, I never do this'. (HB1) 	<p><i>High</i> (6.6)</p> <ul style="list-style-type: none"> • 'Chen is surely political elite, or he has no chance to become CEO here'. (LC7) • 'It is paradoxical. Everyone hates bureaucratic culture, but seemingly enjoys adopting it in life'. (HC2) • 'Performance appraisal is opaque in SOEs, and leaders always make the final decision'. (HC2) • 'If one wants to be a manager in SOE, he must obey the rule of game here'. (HC1)

Notes:

[†] 'Tenure' refers to 'the years in CEO's position when transformation begins', and 'Age' refers to 'the age of change agent when transformation begins'.

[‡] The number in the parentheses means the average value of the scores given by five researchers.

Table 4. Strategic actions of each case

Cases	Taisheng	Shanggang	Sanjian
Negotiation	<p><i>High (6.8)</i></p> <p><i>With local government (6.6)</i></p> <ul style="list-style-type: none"> • ‘Reported to every mayor and related departments’. (HA1) • ‘Met privately with opponents, and persuaded them by my sincerity and confidence’. (HA1) • ‘Taisheng accepted our suggestions of pollution control, in supporting local touring industry’. (HA3) 	<p><i>Middle (4.0)</i></p> <p><i>With local government (5.8)</i></p> <ul style="list-style-type: none"> • ‘We need to pay employee compensation by selling the lands of some factories to local government’. (HB1) • ‘We frequently reported our progress to municipal government’. (HB2) • ‘It is mutually beneficial. Their schools and hospital can help us to serve our citizens better’. (HB4) 	<p><i>Low (1.9)†</i></p> <p><i>With local government (2.2)‡</i></p> <ul style="list-style-type: none"> • ‘We have little bargaining power with municipal government. They in fact do not care too much about us, since we belong to Huaye, a central level group’. (HC1) • ‘Local government does nothing but blame us on mass incident’. (HC2)
	<p><i>With parent company (7.0)</i></p> <ul style="list-style-type: none"> • ‘Liu (HA2) is my boss and good friend, and surely I ought to discuss with him thoroughly’. (HA1) • ‘It is wise to give Taisheng a chance to strive, instead of seeing it go bankrupt’. (HA2) • ‘I believe in Wu’s capability to run the business, which is beneficial to both of us’. (HA2) 	<p><i>With parent company (2.2)</i></p> <ul style="list-style-type: none"> • ‘We cannot accept Huadian’s plan, due to its threat of our autonomy’. (HB1) • ‘Our original plan included change of ownership of main company, which was rejected by Huadian’. (HB2) • ‘Their original plan was partially out of our expectation. We need to integrate our subsidiaries together’. (HB3) • ‘There is no other way to solve this problem, except a compromise’. (HB1) 	<p><i>With parent company (1.6)</i></p> <ul style="list-style-type: none"> • ‘Our head Chen has close relations with several group leaders. He seems unwilling to use his <i>guanxi</i> in this occasion’. (LC2) • ‘After the second mass incident, we applied to Huaye to revise the plan, but were refused’. (HC2) • ‘We did require their suggestions prior to declaring the plan. Some companies have given their feedbacks but not Sanjian’. (HC3)

Table 4. Strategic actions of each case (cont.)

Cases	Taisheng	Shenggang	Sanjian
Manipulation	<p data-bbox="293 1483 314 1576"><i>High (6.7)</i></p> <p data-bbox="358 1406 378 1576"><i>Design of plan (6.8)</i></p> <ul data-bbox="387 1136 580 1576" style="list-style-type: none"> • 'There is plenty of flexibility to design the plan. The way to design it implies the way to implement it. Reformer should think thoroughly here'. (HA1) • 'Different from outside investors, managers as stockholders would bind their endeavors to the firm'. (HA1) 	<p data-bbox="293 1000 314 1112"><i>Middle (4.7)</i></p> <p data-bbox="358 942 378 1112"><i>Design of plan (4.6)</i></p> <ul data-bbox="387 672 613 1112" style="list-style-type: none"> • 'To deal with the resistance from managers, our meetings are often held in the evening till late night'. (HB1) • 'It is challenging to trade off the interests among different groups. We try to make it acceptable by majority, in the meantime, avoiding risk of under-evaluating state assets'. (HB2) 	<p data-bbox="293 556 314 639"><i>Low (2.0)</i></p> <p data-bbox="358 479 378 639"><i>Design of plan (1.6)</i></p> <ul data-bbox="387 195 525 639" style="list-style-type: none"> • 'The plan is unexpected, and we have to accept it'. (HC1) • 'There are inconsistent opinions toward the plan among the members of top management team'. (HC2)
	<p data-bbox="654 1348 674 1576"><i>Implementation of plan (6.6)</i></p> <ul data-bbox="683 1136 1051 1576" style="list-style-type: none"> • 'To weaken the power of opponents, we adopted a so-called "motivating people to fight with people" strategy'. (LA1) • 'When mass incident happened, local police helped us to dismiss the employees. This is actually part of our contingency plan'. (LA1) • 'Separating people from problems. Despite my disagreement with their requirement of high compensation, I respect every employee as my own relative. Upon their withdrawal from the blockage, I sent many of them back home for their safety'. (HA1) 	<p data-bbox="654 884 674 1112"><i>Implementation of plan (4.8)</i></p> <ul data-bbox="683 672 1168 1112" style="list-style-type: none"> • 'Just as Chairman Mao's saying: "We must unity all the possible forces, to fight with our major oppositions". This is exactly true in transformation'. (HB2) • 'To crush opposition groups, I made full use of personal networks, and often dined and drank with the heads of these groups to enhance friendship and give personal favor'. (HB2) • 'Quick action is essential. The <i>guanxi</i> network is so complicated. As soon as we just work out the lay-off name list, many friends and relatives would call or meet us to plea for leniency. It is better to keep the plan secret until the final moment. Once declared, it needs be finished in three or four days'. (HB1) 	<p data-bbox="654 421 674 639"><i>Implementation of plan (2.4)</i></p> <ul data-bbox="683 195 1168 639" style="list-style-type: none"> • 'We do not have enough money to pay employee compensation, due to heavy social obligation. Each year, we pay utility fee of 5.2 million RMB, property management fee of 1.3 million RMB for housing community of our employees'. (HC2) • 'All group affiliations of Huaye are facing similar problems. What we encounter, others will also do. We need not to worry about it'. (HC1) • 'Implementation of transformation is given as a task to us, the HR department. It is terribly stressful, since we do not have the authority to do so. For many times, we were rebuked even beaten by the angry employees'. (LC1)

Coercion

High (6.8)

High (6.1)

Middle (4.3)

Insistence on plan (6.6)

- 'We need to explain the plan to the employees, but not change it'. (HA1)
- 'Layoff is necessary; otherwise the value of employees cannot be shaken'. (LA3)
- 'Previous organizational culture is factionalism and slack. There ought to be a tough leader to crush it'. (LA4)

Insistence on plan (6.2)

- 'Once the plan is announced, we must fight for its rigidity, even when there is some imperipness'. (LB1)
- 'To create a sense of urgency, we mobilized all possible media including newspaper, TV station, broadcasting, as well as publication of newsletter of our transformation. We want to tell both insiders and outsiders: here, change is inevitable'. (LB3)

Insistence on plan (6.0)

- 'Due to pessimistic view of its future performance, no one wants to buy the auxiliary company. The firm forced us to do it with our compensation money. It is too absurd'. (LC4)
- 'Every manager was forced to buy a given amount of stock. It is calculated based on their positions and service years, ranging from 100 to 600 thousand RMB. Those who refused will be dismissed from their positions'. (LC3)

Confrontation with employees (7.0)

- 'I feel terribly afraid of his jumping out of the window. Once death occurs, the outcome would be unimaginable. Even at this moment, I must show my inexorable attitude toward the plan'. (HA1)
- 'Although attended the blockage, many employees like me come to recognize Wu. He is quite different from our previous leaders'. (LA2)

Confrontation with employees (6.0)

- 'Once mass incident occurs, every member of our top management team would speed to the spot. They act collectively and coherently'. (LB4)
- 'We deliberated a very methodical contingency plan to deal with emergencies, carried out by the departments of trade union, HR, and security section. With a prompt responding network, we know the progress and dynamics of the confronting groups clearly'. (HB2)

Confrontation with employees (2.6)

- 'The second time our employees blocked streets, municipal government required us to retreat them in five hours. At this moment, we have to promise to increase their compensation'. (HC2)
- 'After making compromise in the incident of July 2006, the managers have less power to force us to do any unfair things again'. (LC8)

Notes:

† This is the average value of scores of the two aspects of each action. For example, in the Sanjian case, negotiation with local government is scored as '2.2' and that with parent company as '1.6'. Thus, the score of negotiation action of Sanjian is marked as 'low' (1.9).

‡ To code the adoption of a given action, each researcher was asked to individually give his/her score on a seven-point scale to a particular aspect of the action. This score shows the average value given by the five scorers.

ahead in his organizational career. Interestingly, however, they behaved differently, as 'lion' archetype and 'fox' archetype leaders, respectively, who are both 'jungle fighters' in the political arena (Maccoby, 1976). During our interviews, Wu was resolute and talkative, while Chen looked more steady and wily. The fewer political actions in Sanjian's reform do not indicate lesser political skills on Chen's part. As LC2 sets forth (Table 4), this was mainly the result of Chen's own interests and beliefs. During our interview, he cited the Chinese philosophy that change should be conducted by the aid of *Shi* (*shun shi er wei* in Chinese). *Shi* is a popular word borrowed from the book *I Ching*, representing the favorableness of the acting field. If *Shi* is not ready but the actor initiates change, the result will be highly risky. Chen defined his personal objective for transformation as 'avoiding political risk' (Table 2). Therefore, his political skills are also rated as 'high' (6.6).

Du was different from Wu and Chen in this aspect. Although knowledgeable as to the political rules in SOE, he refused to play by them. As he said, 'Authority relations are essential in state-owned institutions. As a manager in SOE, you often need to visit your leaders' families at New Year's time, and send them expensive gifts or even money sometimes. This is called the "hidden rule" here. However, I never do this'. Just as Walder et al.'s (2000) dual-path model identifies, Du's promotion was mainly due to his professional proficiency and unmatched contribution to the firm. During our interviews, he mentioned his design and manufacture of a new kind of boiler in Shenggang, which won the National Award for Technological Invention in 1998.

Despite their similar aspiration levels, Du and Wu's beliefs towards transformation are different. Du's belief is just like the 'political reform' in Chinese history, always featured by conflicting interests and parties (HB1, Table 3). As he said, 'the achievement of organizational improvement is often at the cost of individual sacrifices', which has influenced his actions in dealing with conflicts between organizational development and his own career. As the initiator and strategic designer of the reform plan, Du delegated the implementation works to his assistant, Cheng Xutai (HB2). Cheng was the very person to take on this role and acted as Du's right hand in many thorny issues. Owing to his experience as the manager of the human resources department, Cheng knew the government policies accurately and understood the employees' minds quite well. Such a complicated context caused difficulty in scoring Wu's political skills. In the first round, there was a large difference in the scores given by the five researchers. After some discussion, they reached the following agreement: Du's skills were affected by Cheng's engagement and should be evaluated on their coalition rather than on Du alone, considering the indivisible impact upon the strategic actions. Compared with Wu's long-term webbing of a *guanxi* network for transformation, Du's insensitivity toward authority relations was an obvious weakness in political skills that was irremediable, despite his coalition with Cheng. Therefore, Du's final political skills are rated as 'middle' (4.6).

Strategic Actions

Table 4 shows the adoption of the negotiation, manipulation and coercion actions during the transformation processes of the three cases. The change agent adopted negotiation actions mainly to deal with the local government and the parent company, and its score in Table 4 is the average value of the scores calculated from these two aspects.

As shown in Table 4, Shenggang successfully negotiated with the local government on some key issues such as transferring the price of its factory land, hospital and schools. Owing to conflicting interests, its negotiation with the parent company was not smooth, and Shenggang eventually had to compromise. As a result, its transformation plan does not include changing the ownership of the main company, which left the chance for the parent company to transfer part of Shenggang's assets to itself later.^[2] Hence, its negotiation action is rated as 'middle' (4.0).

In Taisheng, Wu negotiated with the parent company and the local government comprehensively and closely, which led to a favorable organizational field for the transformation. Therefore, Taisheng's negotiation action is rated as 'high' (6.8).

In Sanjian, the amount of assets is 300 million RMB both before and after the transformation. Less effort was made by Chen to negotiate with outside actors (HC3, Table 4), resulting in the managers' and employees' resistance to buy shares. After the reform, the company was still large and the managers were required to give much of their cash for shares while the percentage of their shareholdings and dividends was very small (LC3 and LC4, Table 4). Therefore, Sanjian's negotiation action is rated as 'low' (1.9).

Manipulation action is adopted mainly to win the commitment of inside actors to the transformation plan, as reflected in both the design and implementation stages. For example, to weaken the power of opposition groups, Taisheng adopted a so-called 'motivating people to fight with people' strategy during the implementation stage of a lay-off plan. First, all the employees were laid off from their positions. Then, Taisheng established a competing employment system, and introduced jobs in batches. Each batch had some differences in their rewards ranging from good to poor, and each employee was given the opportunity to apply for their chosen job. The opposition groups tried to form a coalition to resist this temptation, but their endeavors were gradually destroyed by the attempts of individual employees to select their favored positions offered by the firm. These divide-and-conquer tactics were designed to make the persistent employees more and more upset, due to their gradually weakening powers and the significant threat of job loss. Moreover, due to the well-designed MBO plan, the managers welcomed the transformation and strongly supported its implementation. Therefore, Taisheng's manipulation action is rated as 'high' (6.7).

Shenggang adopted an 'evening and night meeting' strategy, to get approval from middle managers during the design stage of the transformation plan. Since

most managers of SOEs were used to going to sleep before 10 pm, some sensitive reforms relating to their own interests were discussed during these 'evening and night meetings'. Before 11 pm, the managers might have actively resisted a reform plan, but when the meeting lasted till 12 pm, they had less energy to do so. Once a decision was approved, it would be carried out the following morning. However, since the main company remained unchanged, there were many inconsistent policies between different companies. These facts caused many complaints and much resistance among managers and employees, which made the implementation works especially difficult. Therefore, Shenggang's manipulation action is rated as 'middle' (4.7).

By contrast, Sanjian did not use manipulative actions. Its transformation was assigned to the HR department as a routine task, so its manipulation action is rated as 'low' (2.0).

The inefficiency of SOEs makes it hard to guarantee the interests of all the actors; thus, the power-disadvantaged employees often become the victims of change. As Table 4 shows, coercion actions are mainly adopted to deal with resistance from employees; coercion is represented here by the change agents' insistence on the transformation plan and their toughness during confrontation with employees.

At Taisheng, one afternoon in May 2002, some employees were not satisfied with their compensation package and besieged Wu Xiangming in a confrontation that lasted two days and one night. There was one critical moment during Wu's confrontation with the employees, as he explained:

The following evening, one employee came and swore, being terribly drunk. He suddenly climbed up to the window and shouted that he would jump down immediately from the fifth floor if I cannot promise to increase his compensation. At that time, I was extremely concerned: if he really did so, no matter how serious he would be hurt or even dead, all I had done would be useless – the transformation must be a complete failure for the interference from the government. I was still calm seemingly and patted his shoulder consolingly and asked him to come down from the window to have a good discussion since I knew that he also must be nervous himself. At last, he got down. Although kind in my attitude, I remained firm in my stand. After seeing that, the employees knew that it would be useless holding on further more, and began to disperse slowly with the persuasion from their family.

Even in this extreme situation, Wu took a firm stand, and stuck to the original plan. Therefore, Taisheng's coercion action is rated as 'high' (6.8).

At Shenggang, a very methodical contingency plan was deliberated, a plan which proved to be very effective when confronting employees. During the two mass incidents, the firm did not give in, and its coercion action is rated as 'high' (6.1).

At the beginning of Sanjian’s transformation, Chen also adopted a coercive attitude toward the resistance of employees in buying stock shares. However, owing to governmental pressure to end the mass incident (HC2, Table 4), he had to compromise with their requirements, which resulted in a loss of authority. Thus, Sanjian’s coercion action is rated as ‘middle’ (4.3).

Change Outcomes

As summarized in Table 5, the change outcomes of the case firms are different, as indicated by both organizational development and the change agent’s legitimacy.

Table 5. Change outcome of each case

<i>Cases</i>	<i>Taisheng</i>	<i>Shenggang</i>	<i>Sanjian</i>
Organizational Development	<p><i>Successful</i></p> <ul style="list-style-type: none"> • 1070 employees were laid off (49.7%) • Sales income increased from 71.2 (2001) to 156.4 (2003) million RMB, and net profit increased from -5.2 (2001) to 17.4 (2003) million RMB • The first place in the special cement market (market share as 26%, 2005) • Successfully developed a new product, which won the National Award for Technological Invention (2005, the highest award won by cement firms) 	<p><i>Successful</i></p> <ul style="list-style-type: none"> • 4530 employees were laid off (56.3%) • All the 10 auxiliary companies turned to make profit in 2005 • Equity of main company increased from 155 (2002) to 1582 (2005) million RMB, and net profit increased from -87 (2002) to 231 (2005) million RMB • Recognized as a successful case of SOE transformation, many outsiders (including Vice Director of central SASAC, 16 top managers from other firms) came to learn its experiences 	<p><i>Failed</i></p> <ul style="list-style-type: none"> • 360 employees were laid off (4.5%) • High turnover rate (18.5%) of middle managers and technical peoples • Net profit decreased from 1253 (2004) to -87 (2006) million RMB, with an annual decreasing rate of sales income as about 16% between 2004 and 2006 • Hospital was transferred to Chengdu city, but all other tasks were not finished • ‘Goals of the plan were hardly achieved’. (HC2)
Change Agent’s Legitimacy	<p><i>Enhanced</i></p> <ul style="list-style-type: none"> • CEO of a joint stock firm • Won the Award of Excellent Entrepreneur of Leshan city, 2005 	<p><i>Lost</i></p> <ul style="list-style-type: none"> • Both Du (unwilling to be division manager of Huadian) and Cheng (started up his own business) were forced to leave their positions 	<p><i>No change</i></p>

The performance of Taisheng after transformation has improved greatly. Its sales income has reached 156.4 million RMB with a profit of 17.4 million RMB in 2003, with an annual growth rate of about 18 percent for the following three years. Two years thereafter it became the leading firm in the special cement market in China (with a market share of 26 percent). The firm has developed many new products; one won the prestigious National Award for Technological Invention in 2005 (the highest award for cement firms). Currently it is manufacturing the largest variety of cements and special engineering materials in China. After the transformation, Wu's CEO position was enhanced after achieving independence from the government and his parent company. Since that time he has put his main efforts into products and market development, winning the Award of Excellent Entrepreneur of Leshan city in 2005.

Just one year after the reform in Shenggang, the ten auxiliary companies began to earn profits, and the income of their employees increased by 27 percent in 2005 as a result of some special bonuses. The main company has been developing faster after the employee lay-offs, with profits as high as 231 million RMB in 2005. It has been recognized as a successful transformation case of a large SOE. Many top managers including the Vice Director of central SASAC, and leaders of sixteen other firms have visited to investigate the company and to popularize its accomplishments.

Even with such significant organizational success, the legitimacy of Du's position was not protected. In 2005, Huadian Group decided to integrate its subsidiaries, and this, in turn, allowed it to qualify for a listing on the Chinese stock market in 2008. Despite his resistance, Du was appointed by Huadian to be the manager of its R&D division in March 2005 in order to weaken his influence on Shenggang. Then, two months later, 74.4 percent shares of Shenggang were transferred into Huadian with no compensation, and another CEO was sent to Shenggang to enhance parent control. Cheng Xutai was forced to leave after the arrival of the new CEO. These personnel changes were not considered a serious problem by the parent company, as remarked by HB3: 'We know that Du has done good jobs in Shenggang's transformation; that is the reason we think he can contribute more in his new position as a division manager of Huadian, the parent company of Shenggang'.

The reform in Sanjian met great resistance. There were four incidents of mass unrest, many smaller disputes, and the turnover rate of managers and technicians rose to 18.5 percent. Market performance began to fall, and sales income decreased by 31 percent from 2004 to 2006. In March 2007, with the permission of its parent company, Sanjian ended reform. The local government welcomed this decision, 'otherwise its [Sanjian's] transformation may cause much instability to local community' (HC3). Chen's position as CEO was not affected by any of these change events, and he is still in power at the present time.

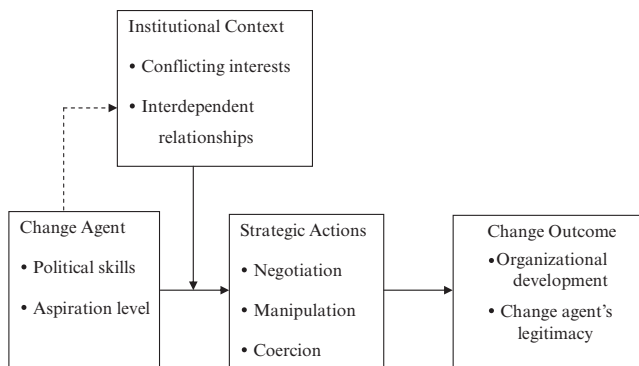
A Proposed Strategic Action Model of Transformation

In summary, the change agents in our cases had different aspiration levels and political skills, which formulated their definitions of the organizational and individual objectives of transformation, and thus led to the implementation of different strategic actions. Based on the above illustrations and theory-building process, we put forward a theoretical model of transformation, as Figure 1 shows. Here, strategic actions of SOE transformation are formulated through the interplay between change agents and their embedded institutional context. In this sense, the model supports the social field theory in modeling individual behavior, set forth in the seminal work by Lewin (1951) – it is assumed that behavior (B) is a function of the person (P) and the environment (E), $B = F(P, E)$, and that P and E in the formula are interdependent variables.

Political skills are means by which change agents can engage in institutional change (Seo & Creed, 2002). The lack of dominant actors or groups leaves significant room to bargain, thus increasing the importance of political skills in establishing an acceptable coalition among different actors. Change agents in our cases vary in their aspiration levels. Roughly speaking, short tenure is related to the adoption of novel or unique strategies, and younger managers tend to assume more risks for greater reward (Finkelstein & Hambrick, 1990). Consider HA2's remark of Wu: 'His entrepreneurial spirit would be constrained by the state-owned institution. He is young, and ought to have his own domain'. As tenure increases, perceptions become very restricted and risk-taking is avoided (as with Chen).

As Figure 1 shows, a change agent's aspiration level and political skills are positively related to the adoption of strategic actions such as negotiation, manipulation, and coercion. Despite the similarity of formal institutional contexts, change agents can affect the favorableness of a specific change context by their relational connections and negotiations with powerful actors. For example, one key aspect of

Figure 1. Strategic action model of SOE transformation



the transformation, estimation of state assets, is often a negotiated result. Moreover, skilled change agents can tailor their tactics to different actors. During the institutional change process, competing actors or groups may collide, seeking to affect change objectives for their own interests. As a response, skilled change agents may adopt manipulative actions to create commitment during the design and implementation stages of a reform plan. In order to remain resolute in determination, coercion is also a desired action. For example, after carefully studying laws and regulations, CEO Wu believed that: 'Although affordable, we can not raise the standard of compensation for employees. The best solution is just keeping fully accordant with governmental laws and regulations. We must ensure the compliance of procedures, thus even in the face of the conflict we might have evidence for or against it'.

Successful change through strategic actions can significantly increase organizational performance, as Taisheng and Shenggang have shown. However, performance improvement will not necessarily protect the legitimacy of the reformer (Ma, 2012). If state property is a major part of a reformed SOE, the leadership position of the reformer is still in the control of outsiders. Relatively speaking, Taisheng has enjoyed a complete transition to a private-owned enterprise, and Wu's CEO position is guaranteed by the new institutional logic.

As Eisenhardt and Graebner (2007) suggested, we constructed alternative theoretical frameworks to explain this phenomenon. We attempt to view transformation as a cycle of goal formulation, implementation, evaluation and modification processes based on the planned organizational change model.^[3] However, the planned change model assumes that the change is operating in 'a single unit or among a group of cooperating units who are sufficiently likeminded to act as a single collective unit' (Poole & Van de Ven, 2004: 378), resulting in a change process characterized by 'deep communication' and 'strong leadership' (Kotter, 1995). As HB2 remarks on the gap between theory and his practice suggest (Table 3), these assumptions do not seem to apply here. In this context, various actors are competing rather than cooperating with each other for domination and control, and their possible coalitions are political means in pursuit of their own individual interests rather than the interests of the collective. Therefore, 'privatization in China has been carried out in opaque ways, with little regard to the principles of fairness and justice' (Chen, 2006: 45).

Therefore, under institutional arrangements with conflicting interests and interdependent relationships, political actions tend to prevail. We add this contextual factor as a moderator variable of the strategic action process. It reflects a political coevolutionary perspective, since organizational transformation is regarded not merely as an outcome of environmental selection or managerial adaptation, but as the 'joint outcome of environmental effects and intentional strategic adaptation' (Rodrigues & Child, 2008: 249). Furthermore, as the dotted line shows, change agents have the potential to impact the institutional context by their relational

framework, and the institutional forces represent a 'personalized' feature enabling the condition of transformation. For example, within a similar corporate governance regime of parent control, Wu's personal relations (*guanxi*) with Liu Gang (the leader of parent company) led to favorable supports from the parent company on Taisheng's transformation, in comparison to the adverse condition of parent control in Shenggang.

DISCUSSION

Research Implications

Based on the strategic action view of institutional analysis, this study highlights the proactive, self-conscious role of top managers as change agents and relates their effectiveness as change agents to their aspiration levels and political skills. The case studies of three SOEs illustrate how change agents can negotiate with local governments and parent companies to win support, manipulate the transformation plan in its design and implementation, and deal coercively with resistance and confrontation from employees. These findings strongly support the appropriateness of the strategic action approach in framing the proactive role of top managers in SOE transformations.

Furthermore, our findings contribute to the literature in two ways. First, the study underscores the enabling condition of conflicting institutional context for strategic actions by change agents. In a transitional economy like China, a variety of cultural and institutional factors may infiltrate the social field of an organization, making different or contradicting demands toward organizational actions (Boisot et al., 2011). Thus, there is no 'taken-for-granted' meaning or rules of institutional orders among various stakeholders. To transform structural chaos into a new order, change agents rely on strategic actions motivated by a high level of aspirations and political skills to obtain cooperation among a complex set of inside and outside actors. They can maneuver external forces in the institutional environment through their relational frameworks, and organizational changes trigger and reinforce institutional change in the external environment (Krug & Hendrshke, 2008). Within their relational frameworks, agents may exert different forms of influence on different actors and should be especially careful not to undermine or underestimate the role of powerful actors.

An important implication here is that institutions consist of and are shaped by various actors. The existence of relational frameworks among powerful actors personalizes the institutional impact upon organizations; the constraining or enabling roles of institutions are contingent on the social ties of change agents in the organizational field (Li, Yao, Sue-Chan, & Xi, 2011). Strong ties with powerful actors can provide change agents with more resources and discretion in conducting transformational change. Skillful change agents can perceive and grasp these

personalized institutional opportunities with agility and then evoke and pursue the change with precision. Moreover, after comparing Wu's and Du's political beliefs and actions, we may find that, in the relationship-oriented cultural context in China (Ma, 2012), relational framework and political skills are interwoven and united with each other. Good *guanxi* with powerful actors is often the outcome of previous intentional and skillful actions, which in turn creates the structural conditions to exert more powerful actions in the future. This implies that the social skills of the change agent are possibly more salient in Chinese society due to its being relation-oriented.

Second, the study highlights the function of the aspiration level of the change agent, which is not identified in the previous literature. As the Shenggang case shows, it is risky to challenge the ongoing institutional arrangement and incumbent groups, and failure would diminish the present interests and authority of the change agent. Therefore, change agents with high aspirations are willing to endure high uncertainty and stress to initiate changes, while those with low aspirations choose to *adapt to* (as HC1's quotation in Table 3 suggests), rather than *fight with*, the institutional pressures. Hence, a high level of aspiration is an important enabling condition for change agents in order to exert their social skills, and one through which they can seize the opportunity in conflicting institutional contexts to exert their power to promote change.

Practical and Policy Implications

During the economic transition in China, the institutional context is often unstable and ambiguous. For example, the existing governmental policy toward MBO (Li et al., 2011) and administrative intervention (Walter, 2010) is occasionally seesawed by radical social events. Moreover, as the helmsmen of highly institution-embedded firms, top managers of SOEs are obsessed by many problems such as 'bureaucratic interference, multiple conflicting objectives, and weak incentives' (Carney et al., 2009: 172). To be successful, they need to be able to detect institutional opportunities via high aspiration and social skills, negotiate with powerful actors to promote a favorable change context, and leverage different or even conflicting interests through arbitrage.

SOE transformation has been widely implemented in China for nearly 20 years, but it is still implemented in the form of context-specific individual ideology and experience. During the process, political actions are inevitable, practically guaranteeing a waste of resources and escalated conflicts among interests groups. As a result, during recent years, labor violence by SOE employees has increased rapidly (Chen, 2006). As Krug and Hendrshke (2008: 83) reveal: 'the local, micro-level business sector is the primary and endogenous force' for the innovation of government policy in China. Therefore, it is time for the Chinese government to review and summarize the micro-level transformation practice and to carry out its policy

here. This will not only protect the interests of vulnerable employees, but also formulate the process, and provide strong support to the legitimacy of the reformer.

Limitations and Future Studies

As with any study, this study has several limitations. First, the transformation of the three case firms occurred at different times. Before the start of this research in 2005, the transformations of Taisheng and Shenggang had been accomplished. Their data were collected from historical documents and through interviewees recalling change events and processes. This may diminish the accuracy of the case narratives to some extent.

The second limitation is case selection. This study is based on three case SOEs located in Sichuan province. The geographical similarity of the cases may put some constraints on the generalizability of the conclusions. Since SOE transformation occurs in opaque, political ways, the sensitivity of disclosure interfered with access to comparative cases in other provinces. Further studies of cases from other provinces, or even different transitional countries, can not only justify our theoretical model and its boundary context, but also extend the political coevolutionary approach more deeply into institutional change literature.

CONCLUSION

In this study, we develop a strategic action model based on inductive case studies on the transformation of three SOEs in China. We argue that under a conflicting institutional context, there are no ‘taken-for-granted’ meanings or rules of transformation. Here, endogenous transformational change is possible, but highly dependent on the political skills and aspiration levels of change agents. The strategic action model is built on the political coevolutionary perspective (Rodrigues & Child, 2008), with emphasis on the interplay between the proactive role of inside actors as change agents and the enabling condition of social context. By highlighting the contingent role of human agency under a conflicting institutional context, we believe that this model can contribute innovative knowledge to reconcile ‘the paradox of embedded agency’ (Seo & Creed, 2002: 223) in the institutional change literature.

NOTES

The authors would like to thank Christopher Marquis and Andrew Van de Ven for their insightful comments; Kathy Eisenhardt for her excellent lectures on the case study workshop conducted in China; the two reviewers of the 2010 IACMR conference and the two reviewers of MOR for their helpful comments; and Xia Gao and Mao Li for their research assistance on an earlier draft of this

paper. We gratefully acknowledge financial support from NSFC (No. 71032002), 'Doctoral Fund of Ministry of Education of China' (No.20090185110001) and 'Fundamental Research Funds for the Central Universities' (No.022050205). All errors are our own.

- [1] The inside/outside classification of actors is based on the boundary of formal authority of a focal organization, since this would affect its adoption of strategic actions, although in the same corporate system, constraining or supporting forces from the parent company are often beyond the control of change agents. For example, coercive actions taken by change agents can only be effective within the organizational boundary, while negotiations are very important when dealing with external actors. In this sense, we classify the parent company as an outside actor.
- [2] Shenggang has adopted an organizational structure as a holding company group, and established many auxiliary companies under the control of the main company. These auxiliary companies were providing some products or services (e.g., hardware equipment, valves, industrial gas, storage and transportation services) related to its main business line (boilers, station donkey engines). Mr. Du Yuanzhe was the CEO of the main company.
- [3] Due to space limitations, alternative theories and analysis (such as reframing transformation as a planned change process) are not specifically represented in the paper.

APPENDIX I

Major events and policies relating to SOE transformation

<i>Year</i>	<i>Events or policies</i>
1979	Six government ministries carried out their experiments in eight large SOEs, which led to a circular by the State Council to enlarge the managerial autonomy of SOEs.
1986	'Labor Contract Law' was issued. According to this law, a firm could set up short-term employment contracts with employees, and had the right to hire or fire its employees.
1986	'Contract Responsibility System' was implemented in SOEs, which has given top managers greater autonomy over sales, bonuses and hiring contracts.
1988	'State-Owned Enterprises Amendment Act (No. 3)' was issued, which granted SOEs the right to make their own managerial decisions, take full responsibility for their profits and losses and practice independent accounting and auditing.
1991	'Measures of Selecting Some Large Business Group Companies as Reform Pilots' was approved, which provided business groups with many privileges such as soft bank credit, an internal finance company, and initial public offerings on overseas stock exchanges.
1992	'Regulation on SOE Assets Supervision' enacted by the State Council. This regulation created a new institution called 'Board of Supervisors', focusing on how to monitor managers who had been granted great autonomy.
1993	'Company Law' was issued, which contemplated corporate governance, financial disclosure and other legal requirements for the reform of SOEs.
1995	Chinese government began privatizing some SOEs or transforming them into joint stock corporations. Guangdong, Shandong and Sichuan were named the first experimental provinces.
1997	The policy of 'Managing Large Enterprises Well While Easing Control Over Small Ones' was passed by the Party, which called for transforming all SOEs into joint stock corporations except large-sized ones.
1999	'Decisions on Some Important Issues on Reform and Development of SOEs' was passed, which declared that SOEs would gradually withdraw from the competitive industry.
2002	'Implementation Measures of Separating Auxiliary Body from Core Business, Transforming Auxiliary Body, and Distributing and Allocating Redundant Personnel in Large and Medium-sized SOEs' was issued, which stipulated that those redundant employees who have been rearranged into newly transformed firms should be provided with a three-year labor contract.
2003	The State-owned Assets Supervision and Administration Commission (SASAC) was established. Thereafter, local government at all levels established their own SASAC responsible for the supervision of local SOEs and state-owned economies.
2005	SASAC prohibited Management Buy-Out at large SOEs.
2007	The State Council approved the regulations that began the remittance of profit of central SOEs to the government.

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Runtian Jing (rtjing@uestc.edu.cn) is a professor of organizational behaviour and the associate dean of the School of Management and Economics at University of Electronic Science and Technology of China (UESTC). He joined the university in 1997 after receiving his Ph.D. from Xi'an Jiaotong University. He was a Fulbright visiting scholar in 2011–2012 at the University of Minnesota. His research focuses on organizational change, leadership behaviour, and cross-cultural management.

E. Patrick McDermott (epmcdermott@salisbury.edu) is a professor of management at the Franklin P. Perdue School of Business at Salisbury University, Salisbury, Maryland. He received his Ph.D. from George Washington University. He was a Fulbright Lecturer in 2007–2008 at East China University of Political Science and Law in Shanghai, China. He has written on Chinese labor contract law, industrial relations developments, and the value attitudes of Chinese business school students.

Manuscript received: October 30, 2010

Final version accepted: April 2, 2012

Accepted by: John Child