



Business Strategies in Transition Economies

By: Mike Peng

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Ten years have passed since the dramatic changes swept through the Eurasian landmass, bringing capitalism to countries formerly devoted to socialism and an economic system based on central planning. Yet the road to capitalism took many turns and twists, and it is still uncertain what form of capitalism will eventually emerge in these economies, now summarily known as transition economies.

Mike Peng has established himself in the strategic management and international business field as leading expert on these economies. He has applied theoretical concepts and empirical techniques developed in strategic management research in the West to China and, more recently, to European transition economies. He thus aims to explain corporate behaviour in transition economies that may puzzle scholars familiar only with mature market economies. Best known is his concept of 'network based growth strategies' pursued by firms who find both internal and external growth strategies inhibited by high transaction costs in the relevant markets.

The present book brings the ideas and empirical results of Peng's various research projects together in one volume. His theoretical starting point is that strategic choices by an organization result from a dynamic interaction between the organization and its institutional environment. In consequence, business strategies in transition economies can only be understood in terms of the specific institutional context. Following Douglas North, Peng considers both formal and informal institutions, which is crucial to understand the development of a network economy in transition economies.

Peng focuses on the differences of strategic management in mature capitalist societies and in transition economies, aiming at explaining the common features of the latter group of countries. This involves some generalizations drawn from studies conducted in one country and resembling features observed in other countries. It is surprising how certain features of business in China

resemble those of Central Europe, several thousands of kilometers away.

The author's strength is undoubtedly his understanding of the intricacies of Chinese businesses, using implicitly the USA (where he is based) as a benchmark. I as reviewer approach transition economies from the opposite direction - studying Eastern Europe from a Western European base - the variation within the economic systems appears to me equally important as that between systems to understand individual economies.

From this perspective, the commonalities seem occasionally to be taken too far. The institutional approach can not only explain differences between transition and mature market economies, but could be fruitfully expanded to analyze the differences among transition economies. The transformation of state-owned firms, for example, varies considerably between similar countries such as Hungary and the Czech Republic as a consequence of different privatization policies. Differences become even more important when bringing together, say, Hungary and China. In Hungary, a large number of state-firms have been sold to foreign investors, who henceforth determine the strategy of the firm. On the other hand, China has only recently begun to sell companies to foreign investors, and has generally imposed constraints on foreign investors' ability to control of the firm, for instance by limiting the foreign-owned share in equity.

Even so, Peng's emphasis of commonalities across these economies raises interesting intellectual challenges. Future research may provide more concise analysis of how institutions affect organizational strategies in countries with different economic systems.

Following the logic of the institutional approach, Peng structures his discussion of corporate strategy by distinguishing firms by their ownership. A chapter each is devoted to state-owned firms, privatized firms, entrepreneurial start-ups, and foreign investors. Peng observes a variety of different strategies in the still state-owned firms, which he attributes to different theories of the firm that serve as ideological foundation of their management. Among privatized firms, which he considers jointly with 'reformed firms', he observes muddling through strategies as well as strategies of accessing capital markets and of deep restructuring.

Particularly interesting is the chapter on entrepreneurship. The establishment of start-up businesses has been crucial for China's economic success and is of considerable importance in the faster growing European transition economies. Individuals become entrepreneurs from quite diverse starting positions, varying from traders maturing from the grey economy to top-notch professionals leaving the uncertainty of a privatizing large firm. Entrepreneurial firms employ more dynamic and flexible strategies, while many, especially in China, heavily rely on networking and close interaction with official authorities. In consequence boundaries between private and public as well as between legal and illegal may become blurred.

Foreign investors, the main hope of many European transition economies, employ many of the entry strategies also observed in other emerging markets. Yet they have to develop specific contractual forms and business relationships to overcome the obstacles of an incomplete and unstable institutional framework. Peng pays special attention to first-mover advantages, and disadvantages.

Throughout the book, two themes are recurring that ought to stimulate future research: the role of institutions is shaping corporate strategies, and the role of networks in societies with an incomplete institutional framework. Future research may sharpen the theoretical interaction between these variables, and establish the validity of Peng's assertions both among transition economies, and possibly even among the wider group of emerging economies.

The book provides an excellent overview of the state-of-the-art literature on a variety of aspects of business in, and with, transition economies. It is well written and could be used for a graduate course on emerging markets that provides students with some theoretical foundations to understand challenges faced by businesses. The arguments are supported with short illustrative case studies that may serve as focal point for classroom discussion.

Mike Peng has presented the first major work to comprehensively summarize and extend cutting edge strategy research on transition economies and establishes a basis for any future work in the area. At least for this reviewer it provoked considerable thought on economic institutions and their impact on business in emerging markets.

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