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Source: *The Academy of Management Journal*, Vol. 43, No. 3 (Jun., 2000), pp. 249-267

Published by: Academy of Management

Stable URL: <http://www.jstor.org/stable/1556394>

Accessed: 17/07/2010 12:39

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## STRATEGY IN EMERGING ECONOMIES

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Emerging economies are low-income, rapid-growth countries using economic liberalization as their primary engine of growth. They fall into two groups: developing countries in Asia, Latin America, Africa, and the Middle East and transition economies in the former Soviet Union and China. Private and public enterprises have had to develop unique strategies to cope with the broad scope and rapidity of economic and political change in emerging economies. This Special Research Forum on Emerging Economies examines strategy formulation and implementation by private and public enterprises in several different regional settings and from three primary theoretical perspectives: institutional theory, transaction cost economics, and the resource-based view of the firm. In this introduction, we show how different theoretical perspectives can provide useful insights into enterprise strategies in emerging economies. We discuss the special methodological as well as empirical challenges associated with doing research in emerging economies. Finally, we briefly summarize the individual contributions of the works included in our special research forum.

In the early 1980s, the term *newly industrializing countries* was applied to a few fast-growing and liberalizing Asian and Latin American countries. Because of the widespread liberalization and adoption of market-based policies by most developing countries, the term “newly industrializing countries” has now been replaced by the broader term *emerging market economies*. An emerging economy can be defined as a country that satisfies two criteria: a rapid pace of economic development, and government policies favoring economic liberalization and the adoption of a free-market system (Arnold & Quelch, 1998). The International Finance Corporation (IFC, 1999) currently identifies 51 rapid-growth developing countries in Asia, Latin America, Africa, and the Middle East as emerging economies.

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We would like to thank Adrian Elton for her research assistance on all stages of the Special Research Forum on Emerging Economies, as well as Douglas Thomas and William Wan. We thank Trevor Buck and Andy Lockett for helpful comments on a draft of this introduction. We also wish to thank Anne Tsui for supporting the original idea for the forum and making it happen, as well as Rita Kosnik for patient editorial advice throughout the whole process.

To these “fast followers,” we add 13 *transition economies*, following the classifications of the European Bank for Reconstruction and Development (EBRD, 1998). Historically, planned economies were ruled by power relations and bureaucratic controls. The state curbed opportunism and allocated resources so there was little need for formal laws to define exchange relationships among economic actors. Property rights were held and protected by the state; individuals could use assets but did not own them. State-owned enterprises (SOEs) were closely tied to governments, receiving direct financial subsidies and indirect preferential treatment. Paternalism, soft budget constraints, and vertical bargaining between the governments and the SOEs characterized central planning (Kornai, 1986).

The collapse of Communism in 1989 created a new group of rapid-growth countries in Central and Eastern Europe—the transition economies—committed (in varying degrees) to strengthening their market mechanisms through liberalization, stabilization, and the encouragement of private enterprise. The transition economies should therefore also be counted (and are normally considered) as emerging market economies. Thus, we identify 64 emerging economies

**TABLE 1**  
**Macroeconomic Data for the Emerging Market Economies<sup>a, b</sup>**

Country	1997 GDP	1997 GNP per Capita	1990-97 Growth in GDP	1990-97 Inflation	Government as a Percentage of 1996 GDP	SOEs as a Percentage of GDP			Trade as a Percentage of GDP		1997 Tariff Rate	FDI as a Percentage of 1997 GDP
						Percentage of GDP			Percentage of GDP			
						1985-90	1990-96	1997	1987	1997		
Asia												
Bangladesh	135	360	4.7	3.6		3.1	3.4		5.7	8.3		0.1
China	3,770	860	11.6	11.2	8.0				6.8	8.5	18.2	1.2
India	1,599	370	6.0	8.8	15.8	13.4	13.4		3.9	4.1	27.7	0.2
Indonesia	679	1,110	7.5	8.6	14.6	14.5			11.1	13.7		0.7
Korea	618	10,550	7.2	5.3	18.6	10.3			36.6	44.9		1.2
Malaysia	168	4,530	8.6	4.5	21.9				49.4	90.0	9.4	2.9
Pakistan	202	500	4.2	11.3	23.8				9.7	10.1		0.4
Philippines	270	1,200	3.3	8.6	18.5	2.3	2.2		8.8	30.8		0.5
Sri Lanka	46	800	5.3	9.8	27.7				14.5	21.6	20.7	1.0
Taiwan	2,848	13,198	6.25	2.9	15.5							
Thailand	393	2,740	7.4	4.8	16.5				16.9	29.7		1.0
Average Asia	975	3,293	6.6	7.2	18.1	8.7	6.3		16.3	26.2	19.0	0.9
Europe												
Albania	2	708	-0.7		27.6		35			18.8		1.9
Armenia	2	435	-9		23.7		52			31.5		1.6
Azerbaijan	4	509	-10.1		20.4		72			28.3		27.3
Belarus	13	1,314	-4		42.6		83.7			60.1		1.4
Bosnia and Herzegovina	10	1,087			43.4							0
Bulgaria	32	1,170	-3.3	109.5	48.1		55		20.7	24.6		1.5
Croatia	23	4,060	-1.0	218.1	46.7		52.5			53.9		1.5
Czech Republic	107	5,240	-0.2	17.1	36.4		28.8			48.2		1.2
Estonia	7	3,360	-3.8	92.2	33.8		35			91.8		5.5
Georgia	5	968	-11.2		14.1		61.3			13.5		3.9
Greece	132	11,640	1.6	12.2	32.8	11.5			22.7	28		0.7
Hungary	71	4,510	-0.2	22.8	43.2		35		30.1	55.2	10.2	3.4
Kazakhstan	23	1,434	-6.2		18.6		65			30.9		9.4
Kyrgyzstan	2	366	-7.4		24.9		55			37.9		4.5
Latvia	10	2,430	-8.5	87.7	31.0		41.3			45.3		3.8
Lithuania	15	2,260	-7.1	140.3	25.0		40			56.9	2.5	2.3
Macedonia	3	1,663	-6.1		41.5		56.2			41.9	1.9	0.9
Moldova	2	504	-12.7		38.7		66.3			45.2		2.8
Poland	251	3,590	4.1	29.5	42.2		40		13.9	27		2.0
Portugal	141	11,010	2.1	6.3	41.6	15.1			29.0	41.1		2.4
Romania	96	1,410	-0.3	124	31.4		51.3		20.8	20.1		1.3
Russia	631	2,680	-7.7	298.8	24.7		41.3			21.3	13.8	1.4
Slovakia <sup>c</sup>	42	3,680	0.6	12.6	49		35			51.4		0.6
Slovenia	24	9,840	1.4	32.3	44.9		57.5			75.6		1.5
Tajikistan	1	179	-11.6		17.9		82.5			69.4		0.4
Turkey	412	3,130	4.1	79.3	26.9	6.5	5.1		11.5	18.5	7.4	0.3
Turkmenistan	2	390	-11.6		16.9		81.3			48		6.6
Ukraine	110	1,040	-13.1	591	31.6		61.5			38.8	6.9	0.6
Uzbekistan	14	611	-2.1		41.6		66.3			26.3		0.6
Average Europe	75	2,801	4.4	117.1	33.1	11.0	52.2		21.2	42.8	7.1	3.1

Latin America											
Argentina	360	8,950	5.4	12.2	14.0	2.7	1.3	5.5	15.1	11.3	1.8
Brazil	1,039	4,790	3.4	475.7	33.8	7.6	8	6.0	11.5	14.6	2.0
Chile <sup>d</sup>	179	4,820	8.3	10.2	21.0	14.4	8.1	12.8	19.3	10.9	4.0
Colombia <sup>d</sup>	263	2,180	4.4	22.4		7.0		6.2	10.0	10.6	2.5
Ecuador <sup>d</sup>	56	1,570	3.1	33.3	15.7	10.2		12.8	18.4	10.4	1.0
Jamaica	9	1,550	0.4	32.8				32.1	56.0		2.2
Mexico <sup>d</sup>	765	3,700	2.2	19.3	15.5	6.7	4.9	7.3	29.3	12.5	1.6
Peru <sup>d</sup>	112	2,610	6.2	40.1	16.5	6.4	5.7	7.6	13.8	12.6	1.8
Trinidad and Tobago	8	4,250	1.2	7.2	28.3	9.1		40.7	59.8		3.6
Venezuela	197	3,480	2.2	50.0	16.9	22.3		15.7	20.6	10.9	2.9
Average Latin America	299	3,790	3.7	70.3	20.2	9.6	5.6	14.7	25.4	11.7	2.3
Middle East/Africa											
Botswana	11	3,310	4.5	10.2	39.4	5.6					0.8
Cote d'Ivoire	24	710	3.0	9.3				32.8	28		1.3
Egypt	186	1,200	4.0	10.5	34.3			10.0	9.3		0.6
Ghana	29	390	4.2	29.2		8.5		13.4	17		0.4
Israel	103	16,180	5.8	11.4	48.7			43.3	48.6		3.2
Jordan	15	1,520	6.3	3.3	35.0			37.0	34.5		2.4
Kenya	33	340	2.1	16	28.9	11.6		13.2	15.3		0.1
Mauritius	11	3,870	5.0	6.4	22.4	1.9		36.8	36.1	31.9	0.6
Morocco	88	1,260	1.9	3.8	33.3	16.8		13.3	13.9		1.2
Nigeria	102	280	2.8	42.6				20.5	21		1.4
Saudi Arabia	211	7,150	1.7	1.8				36.1	50.3		1.3
South Africa	292	3,210	1.5	10.1	34.7	14.9		17.6	20.8	6.6	1.4
Tunisia <sup>d</sup>	47	2,110	4.3	5.0	32.6			19.0	25.7	23.4	0.7
Zimbabwe	26	720	1.8	22.4		10.8	11.3	14.6	19.9	21.7	
Average Middle East/Africa	84	3,018	3.5	13.0	34.4	10.0	8.5	23.7	26.2	20.9	1.2
United States	7,783	29,080	3.0	2.1	22.2			14.0	20.4	3.2	2.9

<sup>a</sup> Definitions of variables are as follows:

GDP is the gross domestic product in purchasing power parity terms in billions of 1997 U.S. dollars.

GNP per capita is the gross national product per capita in purchasing power parity terms, 1997 U.S. dollars.

GDP growth is the average annual percentage growth rate in GDP, 1990–97; Taiwan data are for 1993–97.

Inflation is the GDP implicit deflator, average annual percentage change, 1990–97; for the Taiwan data, it is the 1993–97 consumer price index.

Government is central government total expenditures as a percentage of GDP, 1996.

SOES is state-owned enterprise activity as a percentage of GDP; for Central and Eastern Europe, it is government spending as a percentage of GDP, 1994–97.

Trade is trade in goods as a percentage of GDP in purchasing power parity terms, 1987 and 1997.

Tariff rate is the weighted mean tariff rate on all goods imports, 1997.

FDI is gross foreign direct investment flows as a percentage of GDP in purchasing power parity terms, 1997.

<sup>b</sup> Sources: World Development Indicators, <http://www.worldbank.org/data/databytopic/databytopic.html>; Taiwanese data, [http://www.dgbase.gov.tw/english/dgbas\\_e0.htm](http://www.dgbase.gov.tw/english/dgbas_e0.htm); Central and Eastern Europe data, World Development Indicators and *Transition Report 199*, London, EBRD.

<sup>c</sup> Slovak data were entered.

<sup>d</sup> Tariff barrier data are for 1998.

divided into two groups: 51 high-growth developing countries in Asia, Latin America, and Africa/Middle East, and 13 transition economies in the former Soviet Union. Some statistical information about these countries is provided in Table 1.

The pace of political change and the size of economic gains have not been uniform across the 64 emerging market economies. Macroeconomic stabilization, a precondition for external financial assistance, has been particularly difficult to achieve. The development of market institutions, such as legal infrastructures that provide the basis for effective corporate governance, has been even slower and more difficult (EBRD, 1998). Economic and political shocks have greatly increased the uncertainty and risk for both domestic firms and foreign investors. Missing institutional features (for instance, shortages of skilled labor, thin capital markets, infrastructure problems) as well as political and economic instability and public suspicion of foreign firms have deterred inward foreign direct investment (FDI). The primary impediment appears to be the lack of well-defined property rights that convey exclusivity, transferability, and quality of title (Devlin, Grafton, & Rowlands, 1998). Lack of strong legal frameworks has allowed a large increase in opportunism, rent shifting, bribery, and corruption (Nelson, Tilley, & Walker, 1998). These problems have particularly affected the ability to *enforce* property rights even where legislation has been *enacted* (Estrin & Wright, 1999). As a result, institutional capacity building was, and continues to be, key for attracting inward FDI (Rondinelli, 1998).

The rapid and widespread adoption of market-based policies by emerging economy governments raises important issues for the strategies adopted by private enterprises, both domestic and foreign. In addition, privatization is one means of placing pressure on former public enterprises to effect major changes in their strategies as they adapt to the competitive pressures of a market-based and open economy (Rondinelli, 1998). Privatization also means an increasing number of joint ventures with or acquisitions by foreign firms, with subsequent restructuring, downsizing, and adaptation to Western practices.

At the same time as domestic policies are becoming more market-oriented, emerging economy governments are opening their countries to foreign markets and joining regional trading associations. New relationships between foreign and domestic enterprises are emerging as strategic alliances replace export-processing zone and subcontracting arrangements. Enterprise strategies in emerging economies are therefore facing strong environmental pressures for change, yet this change is neither smooth, automatic, nor uniform across different markets.

The purpose of this Special Research Forum on Emerging Economies is to add new theoretical and empirical insights on enterprise strategies in emerging economies. To introduce this topic, we examine three leading theoretical perspectives in strategic management research—institutional theory, transaction cost economics, and the resource-based view of the firm—to frame the issue. Each perspective is explored below in an emerging economy context. In so doing, we examine whether Western theories are generally applicable in emerging economy environments and whether these contexts permit development of new concepts or modification of old ones. We then outline some of the data and methodological issues that make this topic such a challenge for researchers. Lastly, we summarize the main theoretical and empirical contributions of the work in this special research forum and suggest areas for further research.

### THREE PERSPECTIVES ON STRATEGY IN EMERGING ECONOMIES

We take the view that in the early stages of market emergence, institutional theory is preeminent in helping to explain impacts on enterprise strategies. This is because government and societal influences are stronger in these emerging economies than in developed economies. As markets mature, transaction cost economics and, subsequently, the resource-based view are more important. However, we also emphasize the importance of considering the interactions between institutional theory and other theories in differentiating understandings of emerging and developed market economies.

#### An Institutional Theory Perspective

##### *The role of institutions in emerging economies.*

Institutional theory emphasizes the influences of the systems surrounding organizations that shape social and organizational behavior (Scott, 1995). Institutional forces affect organizations' processes and decision making. Perspectives derived to examine these institutional forces have both an economic orientation (Clague, 1997; Coase, 1998; North, 1990) and a sociological orientation (DiMaggio & Powell, 1983; Scott, 1995).

New institutional economics focuses on the interaction of institutions and firms resulting from market imperfections (Harriss, Hunter, & Lewis, 1995). North (1990) argued that institutions provide the rules of the game that structure human interactions in societies and that organizations are the players bounded by those formal and informal rules. The role of institutions in an economy is to

reduce both transaction and information costs through reducing uncertainty and establishing a stable structure that facilitates interactions.

From a sociological orientation, Palmer, Jennings, and Zhou (1993) studied the institutional constraints on U.S. corporations' strategies in developed market economies. Peng and Heath (1996) argued that the internal growth of firms in transition economies is limited by institutional constraints; as a result, a network-based growth strategy was expected to be more viable in emerging economies. Peng (1997) analyzed three large enterprises in China and confirmed this explanation. In addition, Child and Lu (1996) argued that the economic reform of large state-owned enterprises was moving very slowly because of material, relational, and cultural constraints. Similarly, Suhomlinova (1999) found that government institutions and influences had a negative impact on Russian enterprise reform. At the individual level, Lau (1998) suggested that political and market pressures were the institutional constraints faced by chief executives in Chinese enterprises. Thus, many emerging economy firms facing change were influenced by existing institutional realities.

Institutions can also facilitate strategy, allowing enterprises to react to and play a more active role in an institutional environment if firms have an adaptive ability that allows them to move beyond institutional constraints (Oliver, 1991). Jefferson and Rawski (1995) discussed industrial reform in China and attributed its success to market-leaning institutional change, gradual relaxation of state ownership and control, and development of private property rights. Institutional change provided proper incentives and changes in corporate culture that enabled firms, even state-owned ones, to make improvements. Additionally, Lee and Miller (1996) found that in Korea, a relatively developed economy, firms benefited from a number of cultural and institutional factors. For example, firms employing traditional technologies were more successful in obtaining government help by following legitimate technological norms. In the Czech Republic, Soulsby and Clark (1996) showed how fundamental institutional changes have led to a reinstitutionalization of management in terms of the acquisition of managerial knowledge more appropriate to the new environment, with consequences for strategic decision making.

**Research implications.** The number of theoretical and empirical studies using an institutional perspective in emerging economies is limited, even though some theorists have argued that this perspective is the most applicable paradigm for explaining enterprise behavior in emerging econo-

mies (Shenkar & von Glinow, 1994). Emerging economies, characterized by trends towards "marketization" and privatization but still heavily regulated, provide the necessary institutional influences in developing and testing theories. Previous research points to the importance of studying the speed and nature of institutional change and its impact upon enterprise strategies. Institutional factors also have many dimensions, each of which can change at a different rate. As Tolbert and Zucker (1996) pointed out, the process of institutionalization should be of interest in future theoretical and empirical work. The emerging economies are undergoing changes that will facilitate the study of institutional processes. This observation suggests that researchers should employ longitudinal designs to capture the process elements of institutional effects and compare experiences in economies at different stages of this process.

Oliver (1991) argued that firms can change their institutional environments by developing strategic responses instead of adapting passively. Thus, studies related to how firms develop growth-oriented responses from an active strategic choice perspective, instead of just constrained strategic choices (cf. Blue-dorn et al., 1994), would be more relevant. Such a research perspective would extend the ideas of a firm's sustainable competitive advantages (Hennart, 1994; Oliver, 1997) to an emerging economy context. From the institutional economics perspective, how firms restructure themselves in response to institutional change could be a focus in strategy research. This focus would also involve the study of multinational firms' investment decisions in emerging economies under different institutional contexts. Examining the role and effects of institutions in reducing the transaction costs of production and market exchange is also a promising research stream. This point emphasizes the need to examine interactions between institutional theory and other theoretic approaches. We return to this theme in the next section.

The current study of institutional effects on emerging economy firms has focused mostly on state-owned enterprises (Child & Lu, 1996; Peng, 1997; Suhomlinova, 1999). Obviously, SOEs are directly affected by government institutions; however, the institutional environment (including cultural, political, and other factors) has effects on other enterprises (private firms, international joint ventures, collectives) in emerging economies (Sullivan, 1998; Temple & Voth, 1998). The need to explain the process and outcomes of institutional influences in non-SOE firms is also important. Moreover, there is also a need to examine the enduring institutional effects in privatized enterprises.

Lastly, the effects of the larger institutional context on individual responses rather than on whole firms (e.g., Calori, Johnson, & Sarnin, 1992; Rajagopalan, Rasheed, & Datta, 1993) have not been thoroughly studied. A focus on individual responses to institutional form might cause confusion in studies that cross multiple levels of analysis (ranging from societal to individual), but a more comprehensive examination of the societal and firm-level effects on managerial responses will enhance understanding of the total institutional effects on individual managerial behavior, as well as top management team orientations.

### **A Transaction Cost Economics Perspective**

A second perspective that can be applied to enterprise strategies in rapid-growth developing and transition economies is transaction cost economics. Within this perspective, we also consider agency theory as an important lens because of its focus on principal-agent problems under uncertainty.

**Transaction costs in emerging economies.** Transaction cost economics studies the firm-environment interface through a contractual or exchange-based approach (Williamson, 1975). Where the transaction costs of markets are high, hierarchical governance modes will enhance efficiency, although hierarchical modes can have their own bureaucratic costs. Therefore, the rational governance choice requires a trade-off, at the margin, between the transaction costs associated with the market mode, a firm's need for control, and the governance costs of hierarchy. Organizations will dominate markets as a governance structure in the presence of high uncertainty, large asset-specific investments, and infrequent transactions among small numbers of agents. Transaction cost economics has led to many studies of the adoption of the multidivisional structure (Hoskisson, Hill, & Kim, 1993) and vertical integration and strategic alliances (Kogut, 1988). Some recent extensions include integrating transaction cost economics and institutional theory (Martinez & Dacin, 1999), introducing governance inseparability and unanticipated changes in bargaining power as constraints on firm choice (Argyres & Liebeskind, 1999), bringing varying risk preferences and trust into transaction cost economics (Chiles & McMackin, 1996), and applying transaction cost economics to entrepreneurs (Zacharakis, 1997).

Many of the criticisms and recent advances in the literature identified above are relevant to an understanding of enterprise strategies in emerging economies. Because transaction cost economics has been primarily applied to developed market econ-

omies characterized by strong legal regimes and binding social norms, less is known about governance structures for transactions in emerging economies. Choi, Lee, and Kim (1999) hypothesized that measurement and enforcement are two critically important transaction costs in emerging economies. In a country where the price system does not accurately provide signals for efficient resource allocation, measurement costs should be high. Similarly, in a country where official discretion rather than the rule of law defines property rights, enforcement costs will be high (La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1997). High transaction costs suggest a preference for hierarchical governance structures over the private market. Opportunistic behavior, normally reduced by contract law, trust, or reputation, is also much more likely under such circumstances.

What little scholars do know about governance structures suggests that hybrid structures dominate both markets and hierarchies as the most efficient solution in emerging economies. For example, Peng and Heath (1996) argued that it is difficult for emerging market firms to grow internally or through mergers and acquisitions owing to lack of property rights and unstable political structures. They suggested using networks as a hybrid strategy. By pooling and coordinating resources, firms can achieve economies of scale and scope, and organizational learning can occur. Network contacts and personal relations can therefore be used to reduce uncertainty.

Transaction cost economics may also explain the higher incidence of unrelated diversification and countertrade (that is, barter) in emerging economies. Khanna and Palepu (1997) argued that unrelated diversification by large business groups is efficient in emerging economies because of their underdeveloped capital and labor markets. This argument connects closely to that of Williamson (1975), who argued that market failure had led to diversified hierarchical firm development. Choi, Lee, and Kim (1999) argued that countertrade and other forms of barter can be an efficient governance structure in emerging economies because they create mutual commitments through hostage exchange that can discourage opportunistic behavior.

**Agency theory in emerging economies.** Like transaction cost economics, agency theory suggests that a firm is a "nexus of contracts" (Jensen & Meckling, 1976). A substantial number of studies on corporate governance and restructuring have been spawned by agency theory (Hoskisson & Turk, 1990; Jensen, 1993; Thompson & Wright, 1995). According to agency theory, managers are expected to comply with the interests of external owners of private enterprises, but it is difficult for those owners to ensure that managers do comply. Since it is

difficult to specify *ex ante* contracts with managers that accommodate all possible future contingencies (Shleifer & Vishny, 1997), asymmetric information between managers and external (especially, diffuse) investors increases monitoring costs and enables managers to pursue their own goals.

Some work has been done on these issues in the context of emerging economies. In terms of internal governance, Earle and Estrin (1997), examining the case of Russia, suggested that in transition economies, blockholders will enhance performance through improved monitoring and through enabling foreign owners to introduce new capital and Western experience. Where privatization leads to worker ownership, there may be a reluctance to shed labor, slower restructuring, lower levels of investment, and difficulties in obtaining access to capital (Aghion & Blanchard, 1996). Evidence from Russia indicates that where managers hold large stakes in their firms, managerial risk aversion leads to excessively cautious firm behavior and entrenches management in the absence of a managerial labor market (Filatotchev, Wright, & Bleaney, 1999). In Central and Eastern Europe, evidence also suggests that it may not be sufficient for outside owners to give managers the right incentives for good performance; it may instead be necessary to replace managers who are not suited to market conditions (Barberis, Boycko, Shleifer, & Tsukanova, 1996). Insider resistance, however, may restrict the development of outsider monitoring. Evidence from Russia indicates that investors exercising voice through closer monitoring by banks is problematical because of lack of expertise and difficulties in accessing information (Wright, Buck, & Filatotchev, 1998), together with poor capitalization and regulation (Van Wijnbergen, 1997).

A number of recent studies have focused on the link between governance and strategic actions rather than financial performance (Buck, Filatotchev, Wright, & Zhukov, 1999; Estrin & Rosevear, 1999). Importantly, they have shown that severe product market conditions influence retrenchment strategies and suggest that such adverse conditions may be a prerequisite for improvements when governance structures are weak. It is also worth noting that there has not been much discussion of Asian firms' strategies from a transaction costs economics perspective.

**Research implications.** Transaction cost economics and agency theory suggest several insights for future research on enterprise strategies in emerging economies. The changing environment creates a need and an opportunity for enterprises to change their scopes and their governance structures. However, this process may not be straightforward. First, in emerging economies, frequent and

large macroeconomic and political instabilities and shocks increase exogenous uncertainty. Formal rules may change overnight because of political and judicial decisions. Corruption and bribery are widespread. As a result, many firms may defer investments where external shocks are frequent and cannot be foreseen, or where entry would imply high-cost, irreversible investments. Firms may also defer entry if the creation of asset-specific investments, under conditions of external or internal uncertainty, suggests a high probability of opportunistic behavior by an emerging economy government.

Second, institutional infrastructures to support a market-based system are still weak or missing, particularly in transition economies. Opportunistic behavior is likely because of the prohibitively high costs of obtaining information for monitoring, difficulties in constructing legal contracts, and shifts in relative bargaining power due to exogenous shocks. Transaction costs are likely to be higher in emerging economies than in developed market economies, suggesting a preference for more hierarchical governance structures. Further research, therefore, might usefully be directed at analyzing the changing links between governance structures and infrastructure conditions, and at the impact of the continuing role of governments in enterprise governance. In addition, given the importance attached to networks in emerging economies, further research is needed that examines the conditions under which networks are the most effective, comparing vertical and horizontal alliance networks and related forms of diversification.

From an agency perspective, in transition economies enterprises generally lack managerial skills and knowledge of market-based management. As a result, enterprises are likely to interpret the same objective environment differently, process information differently, and therefore make different strategic responses. This variation suggests scope for comparative studies of the impacts on strategy of governance systems that differ between different types of emerging economies.

Like institutional factors, the ownership and internal governance structures of enterprises in emerging economies might be expected to change over time. The pace of this change may vary according to a number of factors, including the robustness of property rights and the role of insiders in privatization. Evidence from the former Soviet Union, for example (Estrin & Wright, 1999) shows that the shift away from unconstrained insider ownership is very slow. There is a need to understand the implications of the timing of these changes for the development of different strategic options. For example, further research might examine the impli-



cations of resistance to outsiders, especially foreign investors, on internationalization activities by enterprises in emerging economies.

### A Resource-Based Perspective

***The resource-based view and emerging economies.*** The central questions addressed by the resource-based view concern why firms differ and how they achieve and sustain competitive advantage. Penrose (1959) argued that heterogeneous capabilities give each firm its unique character and are the essence of competitive advantage. Wernerfelt (1984) suggested that evaluating firms in terms of their resources could lead to insights different from the traditional I/O (industrial/organization) perspective (Porter, 1980). Barney (1986) suggested that strategic resource factors differ in their "tradability" and that these factors can be specifically identified and their monetary value determined via a "strategic factor market." Barney (1991) later established four criteria to more fully explicate the idea of strategic tradability. He suggested that firm resources and capabilities could be differentiated on the basis of value, rareness, inimitability, and substitutability.

Resources are based in a context and, depending on characteristics of that context, a focus on resources could create strategic inflexibility and core rigidities for a firm that would lead to negative returns (Leonard-Barton, 1992). Oliver (1997) analyzed the issue of a firm's sustainable advantage in terms of resource-based and institutional factors and suggested that firms are able to create or develop institutional capital to enhance optimal use of resources. Firms therefore have to manage the social context of their resources and capabilities in order to generate rents. This idea is also underscored by the work of Miller and Shamsie (1996), who found that the Hollywood film industry provided a context that changed over time and created different strategic assets as changes were made.

To this point, little research using a resource-based-view framework has examined strategy differences in the social context of emerging economies. Like most resources that create competitive advantage, resources for competitive advantage in emerging economies are, on the whole, intangible. However, they are not necessarily product-market-based, as would be suggested by the knowledge-based view of the firm (Conner & Prahalad, 1996). Although some capabilities are standard across all economies (for instance, first mover advantages), others are especially prominent in emerging economies. Multinational enterprises (MNEs) often focus on the revenue-generating potential of emerging economies. Accordingly, MNEs have focused

on the marketing challenge of creating and capturing the huge latent value associated with big emerging economies such as China, India, and Russia. Firms that are able to manage the daunting circumstances in emerging economies reap the benefits of first mover advantages; these include being the first participants in new product markets, reputation effects, and the economic advantages of sales volume and of preemptive domination of distribution and communication channels.

In emerging economies, however, such advantages are difficult to establish without good relationships with home governments. Early relationships give tangible benefits, such as access to licenses, whose number is often limited by a government. Diversified business groups have evolved in many emerging economies. Such groups often obtain licensing advantages because of their government relationships. As institutions change, business groups, which have dominated emerging economies, will have less and less advantage relative to competitors, both domestic and foreign, that wish to enter and exit a market. Khanna and Palepu (1999) suggested that business groups need to take particular care in restructuring once institutional changes take place that reduce the frictions and asymmetries mentioned above. More freedom and decentralization for business units need to be initiated. More flexibility for setting pay scales for executives may be one way of allowing for practices that retain the best managers.

In emerging economies, local competitors may have developed capabilities for relationship-based management in their environment that substitute for the lack of institutional infrastructure. These assets may be used domestically or in transferring abroad to other emerging economies where such assets would likewise be useful. Developing distribution mechanisms may protect a domestic firm in an emerging economy against entry by foreign firms. Furthermore, focusing on a market that has not yet globalized might allow a domestic firm in an emerging economy to dodge the onslaught of multinational rivals. Additionally, competing in a global market may be possible in a commodity area where natural resources or labor give a low-cost advantage (Aulakh, Kotabe, & Teegeen, 2000). In essence, a firm must understand the relationship between its company assets and the changing nature of the institutional infrastructure as well as the characteristics of its industry. In so doing, the emerging economy firm may be able to become an aggressive contender domestically or globally by using its resources as sources of competitive advantage (Dewar & Frost, 1999).

**Research implications.** Emerging economies provide a social context for examining how institutional changes provide opportunities for probing how competitive advantage changes. At the beginning of the transition period, resources that are valuable in a market context are likely to be scarce, yet the available resources are not necessarily inimitable. Managerial expertise derived from previous experience under a Communist system seems unlikely to provide a resource in an emerging economy environment (Lyles & Baird, 1994), and financial resources are also generally scarce (Filatotchev, Hoskisson, Buck, & Wright, 1996). As competitive markets develop, the acquisition of resources becomes more important.

Many competitive advantages in emerging economies are based on network relationships and close business-government ties, with firms becoming effective monopolies in their home markets. As the institutional context changes, there are necessary changes in both firms' asset structures and orientations. Opportunities as well as challenges must be met by new resources. For instance, business groups in the past have had advantages based on asymmetries in foreign direct investment. They must now change and evolve toward a business model that does not rely on government lobbying or generic financial investment strategies (Galvez & Tybout, 1985). Product markets must also evolve as more dynamic competition develops. Examining dynamic capabilities, such as the ability to learn continuously (Lei, Hitt, & Bettis, 1996), and the knowledge-based view of the firm (Conner & Prahalad, 1996) will become more prominent in the study of emerging economies. Further research is, therefore, needed on how firms adapt and learn as markets emerge.

The barriers to the acquisition of these resources require examination. For example, entrenchment behavior by incumbents (Filatotchev et al., 1999) may contribute to the maintenance of core rigidities. Similarly, the downside of networks is that the parties involved may collude to resist change unless there is strong competitive pressure and enforcement of the legal infrastructure. Analysis of these barriers to resource development together with the appropriate timing and sequencing of resource development would yield important insights concerning the interaction between institutional and resource-based-view factors. Further analysis of the role of foreign investors as financial and managerial resource providers also seems warranted.

In summary, it is clear from our review of strategy in emerging economies in terms of institutional theory, transaction cost economics, and the resource-based view of the firm that the strategy literature is just beginning to come to grips with the

implications for private and state-owned enterprises of the economic and political changes that have occurred over the past 10–15 years. Part of the reason for the paucity of research is that data and methodological issues plague strategy researchers in rapid-growth developing and transition economies. We turn to some of these issues below.

## DATA AND METHODOLOGICAL ISSUES

Research on strategies in emerging market economies faces several difficulties. For example, theories promulgated for developed market economies may not be appropriate for emerging economies. On the empirical side, researchers face sampling and data collection problems, difficulties in measuring firm performance, and a variety of timing issues. Lastly, emerging economies are not a homogeneous or clearly identifiable and recognizable group. We review these issues below.

### Theory Development

Theory development in emerging economies can be problematic. There are major issues to be addressed with respect to the replication of tests of hypotheses and research instruments developed and used in developed markets in an emerging market context. Research designs may be misspecified as essential conceptual differences between developed and emerging economies are not taken into account. Eisenhardt (1989) provided a road map to developing theories from case studies that may be appropriate in an emerging market context. An integral part of this approach is the development of research instruments that can be used in quantitative studies. In addition, the combination of quantitative and qualitative data in emerging market research can be particularly useful in yielding novel, relevant, and reliable insights.

### Sampling and Data Collection

Obtaining a representative sample of enterprises through conventional sampling techniques can pose problems in emerging economies. Where data are on-line or publicly available, great care is required in assessing their accuracy. Centralized (governmental) data sources, even telephone directories, can become rapidly outdated owing to the fast pace of economic growth and frequent policy changes. For example, privatization in Russia has been decentralized and regional, with no national body collecting aggregate statistics. There is no publicly available list of privatized firms in Russia, which makes random or structured sampling procedures

difficult. Similarly, firm data collected at the state, province, and city levels, as well as by different government departments in China, are sometimes not consistent with each other. Thus, data collection problems can result from time and level differences.

The problem of identifying random samples suggests the importance of corroborating findings between different studies. However, it should be noted that there is always the danger that a series of studies may all be biased if they face the same sampling problems. A further problem with replication arises from the likelihood that surveys will take place at different times.

Mail questionnaires also suffer from well-known general problems. The vagaries of a postal system may mean that very low response rates are achieved. The absence of a culture involving disinterested social scientists may make for difficulties in establishing trust between respondent and researcher. In China, for example, Luo and Peng (1999) and Luo, Tan, and Shenkar (1998) reported response rates of around 25 percent from mail surveys. Collaborative projects with local researchers using face-to-face interviews may be a key means of gaining access to data sources (Lee & Miller, 1999).

Analysis of strategy issues frequently requires the gathering of subjective information from directors of enterprises. The potential problems relating to the reliability of directors' responses to requests to assign scores to batteries of questions relating to strategy are well known. The interrater reliability tests used in Western studies may be problematic because of difficulties in gaining access to senior management and also because CEOs in many emerging economies (especially in Central and Eastern Europe) are more likely than their counterparts in developing markets to monopolize information flows. The use of multiple informants and data sources is an important means of obtaining reliable and valid data. One of the few efforts to obtain quantitative data from multiple informants in an emerging market is Lee and Miller's (1999) study in Korea, which also used face-to-face interviews and published data.

Problems of data collection and reliability of responses may be exacerbated in emerging economies by the difficulties experienced by respondents in understanding terms and concepts familiar to managers in developed market economies. Cultural equivalency issues are usually addressed through back-translation (Riordan & Vandenberg, 1994). Addressing issues relating to whether language terms are understood may place a premium on pilot studies of research instruments, on providing respondents with thorough explanations of terms, and on using a methodology that provides research-

ers with the ability to check and probe aspects of behavior, notably face-to-face interviews.

Variable measurement poses a number of general problems that present difficulties for strategy research in emerging economies. Research from the resource-based perspective has shown that valued, rare, and inimitable resources are difficult to measure (Godfrey & Hill, 1995). Henderson and Cockburn (1994) used quantitative questionnaires, qualitative interviews, and multiple informants to increase the validity and reliability of their measures of organizational competence. More sophisticated case methodologies were adopted by Collis (1991) and Hitt, Harrison, Ireland, and Best (1998), who used detailed field-based archival and interview data to develop in-depth case studies. Similarly, Rouse and Daellenbach (1999), in their resource-based-view study of organizational culture as a source of competitive advantage, used a four-step research approach for isolating organizational effects. Ideally, these approaches need to be extended to an emerging economy context, yet this may not be wholly feasible in the early stages of market emergence.

From an institutional theory perspective, problems have arisen in constructing a consistent set of measures of institutional factors (North, 1990; Oliver, 1997; Scott, 1995). This difficulty has not only limited the generalizability of findings, but has also provoked the issue of developing a common set of measures for the institutional environments in emerging economies. Since these economies are changing rapidly and with different emphases, a framework that encompasses the factors at different levels seems a necessary step to fostering better conceptualization. As well as the need, expressed above, for further careful theory building, there is an important need for development of a case study approach in research in emerging economies (see Cho, Kim, & Rhee, 1998).

### Performance Measurement

The measurement of the performance impact of strategies may be particularly problematic in emerging economies. First, financial reporting may not be based on conventional developed market standards. Second, even where relevant financial reporting legislation has been enacted, its enforcement may be problematic. Comparisons of financial performance over time may make it difficult to link data compiled under different regimes and systems. This problem may be compounded by substantial inflation and devaluation of local currencies. In addition, widespread use of barter in economies with underdeveloped financial systems may mean that published sales and profit data do not provide reliable measures of activity.

These problems apply to both listed and non-listed enterprises in emerging economies. The problems are especially acute in private firms, where there are widespread attempts to hide profits from both the state and from organized crime (EBRD, 1998: 15). Through the practice of "tunneling," assets are transferred out of companies by their dominant owners, without other owners being aware of these resources (Harris, 1997). Reported asset values can be quite fictitious (Shama & Merrell, 1997), necessitating that researchers obtain board seats to gain access to reliable information (Wright et al., 1998).

As noted, these problems also exist in regard to listed corporations, even though listing requirements might be expected to lead to greater transparency. From an examination of the accounts of listed corporations in Russia, for example, it is evident that both comparisons over time and between enterprises may be difficult because neither the less stringent Russian Accounting System nor the more robust International Accounting System (Skate Press, 1998) is consistently used. Indeed, many listed enterprises switch from one system to the other and back again from one year to the next. There is no obvious systematic mechanism for converting figures between systems.

### Timing Issues

The essence of emerging economies is that they are dynamic and that it is necessary to take account of changes in the institutional environment. Hence, cross-sectional studies may produce misleading results concerning the impact of particular strategies. There would appear to be a major need for longitudinal studies, yet relatively few studies so far have demonstrated this approach. A notable exception is Pan and Tse's (1996) study of cooperative strategies of foreign firms in China.

Longitudinal studies present their own problems. Even in developed markets, the difficulties arising from respondent dropouts on resampling are well known. In emerging economies, the problems may be compounded by high rates of firm attrition through failure and acquisition. The relatively short period of time over which transition has been underway in many countries may mean that its effects have yet to manifest themselves. The difficulty in measuring the impact of transition may also be exacerbated by the problems relating to the reliability of financial data noted above. Such problems may mean, for example, that the effects of governance on performance will not be manifest within a specified time period. Given massive adverse shifts in demand, especially in the countries

of Central and Eastern Europe, it is also important to separate changes that are exogenous and those that relate to the effects of variables such as corporate governance. It may, therefore, be appropriate to focus on the link between governance and strategic actions, since strategic actions may provide a forward-looking indicator of future performance.

With respect to strategic actions, distinctions need to be made between short-term cost reduction strategies and longer-term "deep" strategic restructuring. However, there may be significant problems regarding data availability. Some information is available on strategies for listed corporations in Russia, for example, but there are questions as to its completeness (Skate Press, 1998).

### Heterogeneity of Emerging Market Economies

A basic caution to researchers is that, at present, there is no standard list of countries agreed to be emerging economies, partly because the terminology itself is recent, and partly because the countries may have had different starting points and have arrived at different stages in the process at any one point in time. Table 1, which identifies 64 countries, is the most comprehensive list of emerging economies to date. The term "emerging market economy" may also mean different things to different researchers; for example, in international finance, emerging markets is often understood to mean emerging stock markets. Thus, when one considers research on emerging economies, it is important to clarify the definition and which countries are included and excluded.

In addition, emerging market economies are not homogeneous, even within the same geographic region. Latin America, East Asia, Africa/Middle East, and Central and Eastern Europe, taken as four groups, have manifestly different starting points, but even within these regions countries differ markedly. In Central and Eastern Europe, there are clear differences in regime between countries such as Hungary and Poland and countries of the former Soviet Union. Moreover, even though the now-independent republics of the former Soviet Union had a common starting point, they have pursued different paths to transition and have achieved different degrees of progress (EBRD, 1998: Appendix 2). Similarly, in East Asia there are clear differences between formerly centrally planned countries such as China and Vietnam and other emerging economies such as Korea. These differences may create problems in attempts to compare developed and emerging economy contexts where, for example, samples from two distinct emerging economies are grouped together to overcome small-sample problems.

## OVERVIEW OF THE SPECIAL RESEARCH FORUM ON EMERGING ECONOMICS

Enterprise strategy in emerging economies is clearly an area of considerable interest to strategy scholars. An analysis of the 75 submissions received for this special research forum showed that a large number came from outside of North America, a total of 38.75 papers (52%) in terms of pro rata authorship. This percentage of non-North American authorship far exceeds that typical of regular issues of this journal. Among these non-North American authors, individuals from Hong Kong and the United Kingdom comprised the majority (12 and 8.5 submissions, respectively). Most of the submitted studies are on China and Central and Eastern Europe (16 and 20 submissions, respectively). These numbers are not surprising, because China and Central and Eastern Europe were the two most significant emerging economy areas at the end of the 1990s.

At the outset, we identified three main theoretical approaches to the study of strategy in emerging economies: institutional theory, transaction cost economics, and the resource-based view of the firm. We discussed above how each of these lenses has been employed, to date, in studies of emerging economy firms, and the ways in which they might be further used to build and test theories about enterprise strategies in emerging economies. We now turn to the work in this special research forum, briefly reviewing the key contributions of each article or research note. We have tried to organize the work according to the three theoretical perspectives. However, many papers did not fit neatly into one category, because multitheoretic approaches were more frequently employed than not; thus, the first set of papers we discuss are those that fit in more than one category. This section is followed by an account of those that are predominantly focused on an institutional explanation and then by a discussion of those with a resource-based perspective. Table 2 presents comparative summaries of all the work in the special research forum.

### Work Employing Multiple Perspectives

Khanna and Palepu (2000) find that as the economy liberalized in Chile, product-market diversification at first led to improved firm performance for firms associated with a business group but that later, this association did not add as much value for affiliated firms. Their main arguments are that in emerging economies, market failures are caused by information and agency problems. As an economy develops, new intermediaries (such as financial an-

alysts and venture capitalists) reduce information asymmetries. As a result, internalization by business groups, including unrelated business diversification, allows better capital allocation than external markets and better internal labor market management than is possible in a market where labor mobility is restricted owing to market failure. Thus, market mechanisms are replicated internally in the internal capital market; in contrast, in a more advanced economy diversification becomes less useful because external markets are more efficient. However, Khanna and Palepu find an independent institutional effect in addition to the group effect. Hence, they contribute to institutional theory as well.

Filatotchev, Buck, and Zhukov (2000) combine institutional theory and agency theory to examine the willingness and incentive to change of managers in privatized enterprises in Russia, Ukraine, and Belarus. They focus on downsizing and corporate restructuring as the most appropriate responses in an environment of economic crisis where capital markets are undeveloped and where privatization was not associated with any injection of finance to enterprises.

Delios and Henisz (2000) examine the FDI pattern in terms of the ownership levels of Japanese firms in 18 emerging economies. They argue that the extent of ownership depends on the public expropriation and private expropriation hazards firms face in host countries. Their view is largely consistent with the institutional economics perspective that political and legal factors are sources of public hazards. Furthermore, the article is suggestive of transaction cost and agency theories regarding private expropriation hazards, though the authors do not mention these theories explicitly.

White (2000) focuses on the business-level strategies taken by Chinese SOEs in the pharmaceutical industry in acquiring complementary assets. The hypotheses are developed from the transaction costs, resource dependency, and resources capabilities literatures. White incorporates both organizational environment and internal capabilities factors in assessing managerial decisions. He concludes that a regional industry's competitiveness and a firm's capabilities increase the likelihood of independent development; however, greater numbers of rivals and suppliers lead to more frequent joint development.

Aulakh, Kotabe, and Teegeen (2000) develop a theoretical framework for the exporting strategies and performance of firms in emerging market economies and then test this framework on a sample of exporters from Brazil, Chile, and Mexico. The authors find that cost-based strategies enhance export performance in developed country markets, whereas differentiation strategies are more successful in developing country markets. Adapting marketing mix vari-

**TABLE 2**  
**Summary of the Articles and Research Notes in the Special Research Forum on Emerging Economies<sup>a</sup>**

Authors	Theoretical Framework	Level of Analysis	Research Question	Data	Countries
Khanna and Palepu	Institutional theory and transaction cost economics	Corporate and business	Relationship between diversification and nature of external markets	Archival, both cross-sectional and longitudinal data	Chile
Filatotchev, Buck, and Zhukov	Institutional and agency theory	Business	Effects of willingness to change and incentive to change on downsizing and restructuring	Primary survey; longitudinal/repeated measures	Russia, Ukraine, and Belarus
Delios and Henisz	Institutional and (implied) transaction cost economics/agency theory	Business	FDI and ownership levels of firms in emerging markets	Primary survey	Japanese foreign-owned subsidiaries in 18 emerging economies
White	Transaction cost economics and resource-based view	Business	Impact of organizational environment and internal capabilities in assessing managers' decisions to acquire complementary assets in Chinese SOEs	Published records from Chinese official agencies	China
Aulakh, Kotabe, and Teegen	Transaction cost economics and resource-based view (Porter's business strategies and marketing mix)	Business and functional (marketing)	Successful business strategies used by emerging economies exporters to developed and less developed markets	Primary survey	Brazil, Chile, and Mexico
Guillén	Resource-based view and institutional (business groups)	Corporate	How large diversified business groups in emerging economies gain and keep resource-based advantages	Published Archival data	Cross-sectional data from 9 emerging economies; longitudinal data from Korea, Argentina, and Spain
Uhlenbruck and De Castro	Institutional (critical stakeholder theory, merger and acquisition theory)	Corporate and business	Impacts of organizational fit, government interference, and postmerger involvement on performance of Western acquisitions in Central and Eastern Europe	Primary survey	Western acquirers of firms in Central and Eastern Europe
May, Stewart, and Sweo	Institutional (environmental scanning theory)	Corporate	How perceptions of environment influence scanning behavior in complex and uncertain environments	Primary survey data of Russian executives	Russia
Peng and Luo	Institutional (social network theory, resource dependency)	Corporate and business	Effects of managerial ties on firm performance in China	Primary survey data of top managers	China
Bae and Lawler	Institutional (culture, strategic HRM)	Functional (HRM)	Impact of organizational strategy and HRM strategy on firm performance	Primary survey data of HR directors	Domestic and foreign enterprises in Korea
Chang and Hong	Resource-based view	Corporate and business	Impact of resource heterogeneity and cross-subsidization on performance of corporate strategies of Korean firms	Longitudinal Korean credit rating agency data	Korea
Hitt, Dacin, Levitas, Arregle, and Borza	Resource-based view (partner selection theory)	Corporate and business	Impacts of need to acquire resources, potential organizational learning, and market context on partner selection	Primary survey and case data	International strategic alliances in Mexico, Poland, Romania, Canada, France, and the United States
Isobe, Makino, and Montgomery	Resource-based view (technology assets, early mover, joint venture)	Business	Impacts of technology leadership and first mover status on joint venture performance	Primary survey	Chinese-Japanese joint ventures in China

<sup>a</sup> The table lists all articles in the order in which they appear in the issue, but the two research notes, listed here in their theoretical framework group, follow the articles in the issue.

ables to the specific needs of developed countries also improves export performance. Aulakh and his coauthors also test the relationship between export performance and geographic diversification and find it to be nonlinear.

Guillén (2000) argues that, because of information frictions between firms that want to enter and exit an emerging economy, diversified business groups can have advantages. He suggests that specialized skills in understanding and relating to government create opportunity for inbound and outbound foreign investment. Accordingly, business groups in emerging economies have significant opportunities to gain specific country-related advantages. Although these specialized skills are a rare resource, the advantage they offer may not be insurmountable for either foreign or local competitors. Thus, it is argued that the large diversified business groups often found in emerging economies not only gain resources through diversification but also because their groups have specialized knowledge. In particular, these groups are argued to have specialized abilities in managing asymmetries between inward and outward flows of foreign direct investment.

### **Work with a Primarily Institutional Perspective**

Uhlenbruck and De Castro (2000) find strong evidence that postmerger investments by Western acquirers of privatized firms across Central and Eastern Europe enhance the performance of the acquired firms. In contrast to established theory, their finding was that organizational fit between merging firms was negatively related to performance. An explanation may be either that SOEs require such fundamental transformation that historical similarities between firms are unimportant, or that Western managers fail to understand the running of the enterprises concerned. Uhlenbruck and De Castro's study also emphasizes that foreign firms entering transition economies through acquisition of privatized firms need to take government interference into account, since continued government involvement is negatively related to postacquisition performance. These authors suggest, therefore, that merger theory may need to take account of political, organizational, and cultural differences in emerging economies acquisitions.

Environmental scanning is an important part of the process by which organizations adapt to discontinuities, complexities, and uncertainties in their environments. In order to obtain insights into the comprehensiveness of extant scanning theory, May, Stewart, and Sweo (2000) investigate how perceptions of the

environment influence the scanning behavior of executives in such an environment, using the case of Russia. They find that Russian executives rank the sectors newest to the Russian environment—customer/market, economic, and competition—highest in strategic uncertainty, irrespective of a sector's classification in either the task or general environmental category. In contrast to Western research, their results indicate that for Russian executives, rate of change and complexity are both insufficient and unnecessary for predicting scanning behavior. Rather, importance alone, moderated by perceptions of source accessibility, is the superior predictor of scanning frequency. These findings suggest a need to modify Western models of scanning in the context of transitional emerging economies.

The final two works to be discussed in this section are research notes. Social network theory has suggested that better interpersonal connections between managers are positively associated with improved performance. Using Chinese data, Peng and Luo (2000) find that managerial ties between enterprise managers and government officials are more important than ties with managers in other firms in influencing firm performance. This finding implies that emerging economies firms may have greater resource dependence on government officials than on other firms. There is also a contingency aspect, as these authors also find that personal ties with managers at other firms are likely to be more important in small, low-growth, and service enterprises. In contrast, ties with officials are more important for small, private sector, and service enterprises.

Bae and Lawler (2000) expand the strategic human resource management framework to Korea by incorporating the uniqueness of Korean culture in their hypotheses. They examine the links between a firm's overall organizational strategy, human resource management as a functional strategy, and firm performance. They argue for the applicability of a high-involvement human resource strategy in an Asian culture. This is one of the few papers that focused on functional strategies of firms in an emerging economy.

### **Work with a Primarily Resource-Based Perspective**

Chang and Hong (2000) examine the performance of corporate strategies of Korean firms with a group background from a resource-based perspective. The authors develop their framework by addressing group resource-sharing and internal transaction issues. Two basic concepts, heterogeneity and cross-subsidization of tangible and intangible resources, are developed. The results indicate that group-

affiliated firms enjoy benefits from sharing resources with other member firms. Debt guarantee, equity investment, and internal trade are tools of cross-subsidization and sources of benefits.

Hitt, Dacin, Levitas, Arregle, and Borza (2000) develop a theoretical argument that partner selection decisions are based on needs to acquire resources and potential organizational learning embedded in specific market contexts. They find that the set and importance of partner selection criteria vary across emerging (Mexico, Poland, and Romania) and developed (Canada, France, and the U.S.) market contexts. As expected, enterprises in emerging economies are found to emphasize financial assets, technical capabilities, intangible assets, and willingness to share expertise when they select partners more than do enterprises in developed markets. In contrast, enterprises in developed markets attempt to leverage their resources through partner selection by emphasizing unique competencies, local market knowledge, and access more than do enterprises in emerging economies.

Isobe, Makino, and Montgomery (2000) examine whether early movers and technology leaders attain superior performance in emerging economies. The authors find that technology leaders and first movers in Sino-Japanese joint ventures in China do attain superior performance. However, the relationship is contingent on both internal and external factors, including the strategic importance of an investment, the extent of parental control of a joint venture, and the availability of local infrastructure.

## CONCLUSIONS: LESSONS AND NEW DIRECTIONS

The articles in this special research forum contribute to knowledge of enterprise strategies in emerging economies both from a theoretical perspective and in terms of empirical analysis, although each of the authors has had to come to terms with the difficulties, outlined above, of conducting rigorous empirical research in emerging economies.

One of the main criteria for acceptance for this forum was demonstration of theory development. In this introduction, we have suggested that further theoretical development might usefully draw on frameworks relating to institutional theory, transaction cost and agency theory, and the resource-based view of the firm. It is anticipated that as markets emerge, institutional theory first becomes most relevant, followed by transaction cost theory/agency theory, and then by the resource-based view. Several of the current contributions develop

perspectives that integrate institutional theory with transaction cost economics, the resource-based view, or related perspectives. These papers demonstrate the crucial importance of understanding the institutional context in researching emerging economies. This observation in turn suggests attention needs to be devoted to examining the barriers to the emergence of market-based strategies in enterprises in emerging market economies. Key issues to be addressed involve consideration of whether lack of progress is due to poor implementation or to obstacles blocking managers' ability to implement market-related strategies. To the extent that the former is true, there are implications for the development of managerial skills and behavior. To the extent that the latter is true, issues are raised concerning economic environments, institutional infrastructures, and so forth. Some of the work presented in this forum points to the continuing negative influence of government and the influence of social networks and culture. The barriers to the emergence of market economies that we have identified suggest scope for further theoretical attempts to link institutional factors with other theoretical perspectives.

In this context, the development of markets in the emerging economies covered by this special forum raises issues concerning the extent to which a convergence of economic systems is occurring in terms of legal infrastructures, institutions, and corporate governance mechanisms. Such a convergence would have implications for the nature of enterprise strategies (Macey & Miller, 1997). Particular questions are raised about both the desirability and feasibility of introducing or even imposing American-type approaches in emerging economies. Further theoretical and empirical research is required to enable an understanding of these issues.

The term "emerging economies" suggests a process that takes place over a considerable period of time. Enterprises in different markets and different countries may be expected to adopt market-based strategies at different times and rates because institutional factors are also changing at different times and rates. Moreover, the development of market-based strategies is unlikely to be monotonic; enterprises can be expected to engage in extensive search and experimentation, and learning is likely to be imperfect. This observation suggests, first, a need for longitudinal studies. However, there has been little research using a longitudinal approach. In the current collection, only three articles (Khanna and Palepu, Chang and Hong, and Filatotchev, Buck, and Zhukov) have a longitudinal perspective. There is, therefore, both need and scope for further longitudinal studies. Second,



there is need for further analysis of enterprises' processes of search, experimentation, and learning.

These processes not only clearly affect the interaction of enterprises with their environments at the corporate and business levels, but also relate to the development of internal functions and their links with strategy. Much attention may focus on the first two levels in the early stages of market emergence, but the need to develop functions such as marketing and human resources management where they have previously been absent can be paramount to the creation of the resources necessary to achieve sustainable competitive advantage (Hooley, 1993; Soulsby & Clark, 1996). The papers included in this special research forum also suggest there may be a particular need for further research at the functional level of strategic analysis, since only two, those by Bae and Lawler and Aulakh, Kotabe, and Teegen, examine functional issues.

As noted in the previous section, the focuses of research on enterprise strategies in emerging economies to date have been China and some countries of Central and Eastern Europe. However, 64 countries in four regions (Latin America, Asia, Africa/Middle East, and Central and Eastern Europe) have been identified as emerging economies. There is, therefore, a need for considerable broadening of the research agenda to embrace developments in these countries. Many of these countries have received little research attention; this is especially true of the Africa/Middle East region and of several republics of the former Soviet Union. Importantly, these countries should not just be included to provide tests of existing theories of enterprise strategies in yet another market. Rather, there is a need to develop theoretical and empirical understanding of the factors promoting and restricting the emergence of new market economies. Additional comparative studies of these factors in different emerging economies are warranted.

More than a decade since the fall of Communism in Central and Eastern Europe and many years into the process of market development in East Asia and Latin America, it is clear that individual emerging economies are progressing in widely different ways (see Table 1). Some countries appear to have come to a premature halt in their progress with market development, others have become relatively well developed, and others have shifted from the initial stages of transition to a focus on the problems of preaccession to the European Union. The challenge ahead for strategy researchers is to identify how enterprises in differing emerging economies can overcome external and internal impediments to the design and implementation of successful market-based strategies.

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