The globalising Chinese business enterprise: the role of strategic fit

Theodore T. Herbert*
Crummer Graduate School of Business
Rollins College
1000 Holt Ave – 2722
Winter Park, FL 32789–4499, USA
Fax: (407) 646–1550
E-mail: therbert@rollins.edu
*Corresponding author

Ilan Alon
Rollins College
1000 Holt Ave – 2722
Winter Park, FL 32789–4499, USA
Fax: (407) 646–1550
E-mail: jalon@rollins.edu

J. Mark Muñoz
Tabor School of Business
Millikin University
1184 West Main Street
Decatur, Illinois 62522, USA
Fax: (217) 424–6286
E-mail: jmunoz@mail.millikin.edu

Abstract: To achieve full performance potential in becoming a global business competitor, enterprises in transitioning economies, particularly Chinese business enterprises, must identify and rectify deficiencies in their resources and capabilities. Too often, prescriptive advice on globalisation requirements is given that is too narrowly focused on accommodating the full range and interactive effects of multiple action responses needed. We offer an approach that is useful for considering the range of options for Chinese firms through the lens of multiple response levels, ambient factors, the individual level, the intraorganisational level and the interorganisational level. We argue that the approach allows the identification of deficient resources and capabilities which, upon being remedied, must pass another hurdle of analysis, that of inspecting their potential for misalignment or poor strategic fit. While the approach is especially well-suited to China, the concept may also be suitable for other transitioning environments.

Keywords: China; Chinese firms; globalisation; globalisation strategy; strategic fit; strategic alignment; firm resources and capabilities.
1 Introduction

Globalisation has spurred business interactions among countries around the world, allowing the acceleration of capital flows and increasing economic and political interdependencies among countries (Greenberg and Baron, 1997, p.37). This new reality is characterised by:

- lower transportation and communication costs arising from sprouting technologies
- trade liberalisation across several fronts
- more aggressive business endeavours in both developed and developing countries that lead to expanding exports and cross-border foreign direct investments.
The globalising Chinese enterprise

The trend has spearheaded economic growth and competitive activities worldwide (Greenberg and Baron, 1997, p.37).

Especially since China joined the WTO, increased globalisation has led to the expansion of investment in China and boosted its economic growth (China Daily, 2004). Its growth in globalisation has been second to none; currently China is the largest recipient of foreign investment in the world (UNCTAD, 2004), even larger than the USA’s inward investment. China is “currently the most active internationalising economy among the developing countries” (Child and Rodrigues, 2005, p.382), surpassed only by Germany and the USA in exports (Williams, 2005). It has rapidly increased its outward Foreign Direct Investment (FDI), and is currently the fifth largest outward FDI (Ministry of Commerce, 2005), underscoring the new role of the Chinese firm in business activities outside China. Indeed, Chinese firms benefit from access to advanced technologies, expanded overseas market share, and economies of scale gained from international forays; learned practices can be brought back and assimilated in the parent organisation in the Mainland.

In transitioning economic environments worldwide, companies are planning and implementing strategic initiatives for dealing with, and adapting to, the needs imposed by globalisation. In this respect, China is no different from other developing economies. China’s economy is currently in a “prolonged state of transformation involving a shift from centrally planned economies to free-market economies” (Lukas et al., 2001, p.409), and more specifically, to a socialist market economy—a market economy with uniquely Chinese characteristics, management practices, and employee behaviour (Zhu and Dowling, 1994).

Underscoring the national importance of the transition to a free-market system—and the far-reaching challenges to a successful transition—is the Central Committee of the Communist Party of China’s report defining aggressive new objectives for State-Owned Enterprises (SOEs), to be achieved by 2010 (People’s Daily, 1999). These include creating a progressive corporate system; improving economic performance; strengthening firms’ capabilities in science and technology, market competition, and entrepreneurial undertakings; and converting the prevailing SOE management system into a modern enterprise system (Wang, 2000, pp.9–10). Issuing such an ambitious agenda for SOEs implies that similar goals for other types of Chinese enterprise are consistent with the wishes of the central government.

The challenge then seems well understood. The literature contains much in the way of useful but isolated or single-issue insights, which are difficult to assess for their relative impact or practical application. Left unanswered has been how the enterprise can achieve those capabilities for effective globalisation and which concrete steps should be taken in identifying and implementing the appropriate responses. In this paper, we identify an approach, which although not an exhaustive treatment of all possible issues of relevance, provides what we believe to be a manageable range of issues, through which actionable areas of high return for the globalising Chinese enterprise may be specified.

2 The Chinese challenge: becoming globally competitive

The competitive capability of China’s large firms, even after two decades of reform, remains very weak when compared with the dominant prosperous, highly competitive, sophisticated, experienced and aggressive global giants (Redding, 2005, p.1; Nolan,
2001, p.187). The bar is already set high. Many Chinese companies have been sheltered from intensive competitive pressures and the improvement and honing of organisation-wide capabilities. Particular weaknesses remain in such central competences as R&D, marketing capabilities, brand development and continued governmental constraints. Yet the strategy of internationalising offers a very practical vehicle for the Chinese firm to free itself from the constraints faced in China, gaining leverage through an international presence to become more competitive on the world market, as well as against MNCs in the Chinese home market (Child and Rodrigues, 2005).

These broad challenges call for responses at the level of the firm and the individual entrepreneur or executive, taking action for building capabilities and resources (Wernerfelt, 1984; Barney, 1991) to remedy performance deficiencies. Certainly, identifying and remediying challenges on all levels of operations as well as improvements in many separate aspects of the firm’s functioning can be daunting.

3 Strategic fit and alignment of organisational initiatives

For the Chinese firm to become a successful player in an intensely competitive global marketplace requires attention to all aspects of the firm’s operations, attending to the full but prioritised set of elements central to the firm’s competitive and operational conditions. Such a broad perspective requires evaluating many different aspects of the firm and its environment, a significant challenge indeed. Focusing on improving the performance of a specific function such as production efficiency, while neglecting to pay attention to how that function interacts with other elements in the business system, inevitably leads to overall suboptimal performance or outright dysfunction. Yet attending simultaneously to all relevant facets of organisational performance is a skill acquired with great difficulty and much experience. We propose an approach to this task, which should prove useful.

3.1 The concepts of strategic fit and alignment

An approach for the systematic identification and assessment of interactions and needed coordination is useful for enhancing the overall effectiveness of the business system. The concept of strategic fit (Miller and Friesen, 1983; Venkatraman, 1989) is useful for identifying the business’s constituent elements and their separate components that affect organisational performance, considering how negative or positive interactions may result from changes in key business elements, and making decisions designed to ensure all the parts ‘fit’, yielding higher overall performance. Using strategic fit criteria also includes identifying deficiencies that need to be remedied.

For ‘fit’ to exist, the various components of a system must be internally consistent with the other major components, towards the end of optimising their respective coalignments with each other, and then ensuring another effective ‘fit’ between the coaligned system and its environment. When ‘fit’ is attained, the organisation can achieve higher levels of performance (Peng, 2003). The concept has been extensively investigated in Western organisations and their mature economies, with high levels of consistent results supporting its utility (Venkatraman and Prescott, 1990). The few applications to
The globalising Chinese enterprise

...economies in transition similarly have yielded positive results, including fit between generic strategy and national culture in China (Ross, 1999), and a study of the fit between Chinese electronics firms’ strategies and their environments (Lukas et al., 2001). Consequently, the strategic-fit approach offers a means by which to investigate and identify Chinese firms’ opportunities or deficiencies in becoming effective as competitors against more globally experienced companies. It then may be applied to identify appropriate strategic responses to rectify any imbalances or lack of alignment, or to maintain required coalignment of company resources and capabilities.

3.2 Identifying the firm’s levels for analysis

We suggest that strategic initiatives for Chinese firms’ improving their capabilities in global performance, then, may be considered through separating their attributes and other aspects, depending on the level at which their primary sources and effects lie, into one of three related conditions or levels of analysis:

1 the individual level

2 the intraorganisational level

3 the interorganisational level.

We identify those elements that seem most suited to a broad range of organisational goals, strategies and ownership types, that may be refined to meet the needs of the specific firm. Each level has separate implications for performance in globalising competences and for fit, and level-specific strategic actions offer the potential for important performance increments for the globalising firm. We caution that the distinctive attributes and elements for each level will vary according to the goals and strategies of any specific firm. We further emphasise that our suggestions are not guided or influenced, to the best of our abilities, by any agenda for imposing Western-style business or management practices on Chinese firms; our underlying assumption is that both Chinese and Western-style philosophies and practices offer the potential for useful and mutual accommodations for the pragmatic outcome of enhancing the globalisation competences of the Chinese firm.

The individual level is concerned with those elements that operate through the capabilities, resources and processes of individual members of the organisation, and which are important for improving or hindering overall performance. These relevant factors must be identified and appropriate actions taken to ensure that those necessary for effective and efficient human resources are addressed.

The intraorganisational level focuses on those capabilities, resources and processes that are relevant to the effectiveness and efficiency of operations within the boundaries of the organisation. There may exist deficiencies in needed capabilities and resources, structural adjustments, technological innovations and process improvements to, say, manufacturing engineering or quality assurance.

The interorganisational level focuses on phenomena that are relevant to the interactions between firms. Companies adjust their business strategies in response to the challenges and opportunities brought by heightened trade integration, technological exposure and international competition. Companies create these responses that are external to their boundaries, responses which are local as well as global. The local
sublevel pertains to in-country relationships with the government and other domestic stakeholders. The global sublevel consists, for example, of business strategies or strategic alliances and partnerships developed across borders, and of competitive strategies that must be formulated for success in the global marketplace.

While factors unique to each level simultaneously influence the functioning and performance of the Chinese firm, also operating are cultural or institutional elements that permeate the organisation and its separate levels through common cultural and historical effects. We term these environmental, background, or ambient factors.

3.3 Alignment across levels

Companies in transition environments run a significant risk of pursuing conflicting or misaligned strategies across these three levels. For instance, interorganisational actions may prove to be incompatible with the requirements of the individual level, resulting in organisational conflicts or failure. Meeting organisational objectives may best be optimised when the requirements of each of the three levels are identified, the levels aligned (investigated for inconsistencies or conflicts, and those found being rectified) with each other, and all levels also be found to be consistent with the relevant external environmental conditions. In other words, the executives of a globalising firm may take action that affects any given level, but must be aware of the implications for each of the other levels; he or she must creatively seek to modify or refine those important for the level so that their impacts on any of the other level(s) are at worst benign and lead to improved overall performance.

In the following sections, we discuss the distinctive natures of each of the three levels and their respective outcomes. We suggest the means by which to identify and assess each level’s impact on organisational functioning and its potential conflicts with those of other levels through misalignment, and conclude by suggesting methods for identifying the levels’ potential for benefit or conflict and also for determining the interactive effects from the set of levels’ effects on the organisation.

4 Levels of strategic response and their interactions

The sections that follow identify the strategically relevant attributes of each level to its detriment in achieving performance parity with or superiority over foreign competitors and how these attributes may characterise the Chinese enterprise. In this section, we consider the ‘backdrop’ of organisational functioning, which we treat as an ambient factor, then review the natures of the separate levels and their potentials for mutual interactions. We also discuss the critical importance of ensuring that the actions taken at each separate level are consistent with (that is, ‘fit’) those at the other levels.

4.1 Ambient factors

Ambient factors are those cultural or institutional elements that permeate the organisation through common cultural and historical effects, affecting almost all individuals, specific intraorganisational factors, and some aspects of the firm’s interorganisational elements.
We acknowledge that cultural and institutional forces are many, but we restrict our discussion to those few, which seem to capture immediate implications for globalising Chinese firms.

One such factor that affects individuals is Confucianism’s maintaining its influence over individuals and their beliefs and behaviours in the Chinese culture (Lu, 2003). Personal relationships (guanxi) play an important role in the conduct of business in the Chinese society (Luo, 1997), and consists of an individual’s set of personal connections, as assets, that one draws upon to secure business or social advantages when engaged in business dealings or in social settings (Davies, 1995). Guanxi is philosophically aligned with Confucian values pertaining to the maintenance of relationships, helping those in need, and fully reciprocating favours; it works to maintain network harmony, sets the rules of cooperation, secures knowledge and resources, and lowers the transaction costs of doing business (Davies et al., 2003).

As obvious as its effects on the individual, is guanxi’s major implications for the firm, particularly regarding acknowledging or compiling resources and capabilities; without appropriate guanxi, even the most highly endowed and technologically sophisticated organisation may prove unable to achieve its objectives without enormous extra effort and resources (McInnes, 1993). Peng (2003) points out the initially critical requirement for such interpersonal relationships in emerging economies’ early phases, which then become “necessary but insufficient for good performance” (Peng and Luo, 2000, p.487), requiring adding market and competition-based capabilities to yield a fully complementary resource.

Individuals are influenced also by institutional factors. These have been found to affect the change schemas of senior managers, mid-level managers, and front-line workers in a variety of Chinese firms (Law et al., 2002). Socioeconomic factors impact the individual’s perceptions, evaluations and inferences of anticipated changes, and also affect organisational commitment and job satisfaction. Other institutional factors similarly have been found to influence the individual’s perception and meaning of work in Chinese organisations, through the effects of political economy, work ideology, labour market dynamics, organisational frameworks, and the managerial regime under which people work (Westwood and Lok, 2003).

Many studies point to important culture-based differences between two organisations and their separate business practices. The values and practices of other cultures must be explicitly considered, and any resulting ambiguity or dissonance must be accommodated (Marquardt and Engel, 1993). Yet such culture-inspired differences can prove challenging. In a comparison of work goals among undergraduate business management students in the USA, China and Taiwan, for instance, US respondents ranked ‘time for family’ high among their goals, while the Chinese group emphasised the need for actualisation-related work goals. The disparity between the views of the US and Chinese respondents was attributed to the differences of world views by the two groups (Yu et al., 2003).

It is important that organisational decision-makers understand the ambient influences on organisational members and the societally ascribed goals for which people work, in order to be able to create aligned conditions for employees. If there are work goals specific to one culture, they must be identified and factored into work strategies; joint ventures or strategic alliances with foreign personnel offer opportunities for conflicts derived from differing work goals, an outcome to be anticipated and preempted.
One way in which the impact of ambient societal conditions may be considered is through a framework such as that first espoused by Hofstede (1980). While broad generalisations can be dangerous, they may also offer useful insights, hence our inclusion of this approach. Ross (1999) observes the implications for business. China is characterised by rather high power distance, implying a broad preference for formalised and hierarchy-oriented organisation, centralised power, and a relatively high amount of formality in relationships and communications. It is also highly collectivist in nature, yielding an emphasis on harmony, group-centredness and a deep concern for appropriate behaviours and values as determined by others, with implications for personal relationships, social obligations and guanxi. Uncertainty avoidance is mid-range for China, with rules tending to be formal, implicit and traditional; communication is high context, with multiple and subtle dimensions, or with low levels of explicit content. The Chinese value a long-term orientation, yielding priority for continuing and stable harmonious relations within highly structured organisations; concern for the future, doggedness in pursuing goals, thrift and subordination of individual goals for a higher goal and high social content in organisations.

The ambient factors discussed above are not all-inclusive, of course, but are illustrative of the potential range of impact of this category of factors that exert powerful effects on organisational functioning. They also should point the thoughtful executive to examining critically those cultural or institutional factors relevant to the specific Chinese firm’s needs and situation, rather than being ignored because of overfamiliarity. Nested within the system of ambient factors are the three levels directly relevant to the globalising Chinese firm, the first of which is that of the individual level.

4.2 The individual level

As China makes the transition from a centrally planned economy to a socialist market economy – a market economy with uniquely Chinese characteristics, management practices, and employee behaviour (Zhu and Dowling, 1994) – employees increasingly face the need for assessing and upgrading their competences. In organisations in China, for instance, employees are likely to possess uneven skill sets, interests and predispositions towards foreign cultures and organisations.

Suggestive of the scope of the individual-level challenge are the areas of knowledge that have been identified as important to employees in globalising organisations. These include knowledge of the home culture; knowledge of the target culture; knowledge of the theory, practice and dynamics of human resource management; knowledge of, and facility in, the language of the target culture; knowledge of the relevant corporate cultures and global perspective (Marquardt and Engel, 1993); and knowledge of basic business functions.

Simple acquisition of skills or technical capabilities, though, cannot capture the complexities of the processes through which the individual interfaces seamlessly with organisational needs and strategic elements. The organisation’s and its members’ attributes must be consistent with each other. Such fit has been found to be a significant factor in organisations endeavouring to conduct business globally. For instance, the commitment of employees in Shanghai has been found to be induced by their leaders’ values, and effective leadership results when productivity and people values are blended with cooperative goals (Liu et al., 2002).
The globalising Chinese enterprise

The existence and systematic application of the organisation’s person–organisation-fit intentions, as acculturation strategies, are critically important as they influence employees’ fitting into the organisation (McMillan and Lopez, 2001). Organisations in China must examine and assess their employees’ suitability to the organisation and its goals and strategies in order to optimise its individual level challenges.

4.3 The intraorganisational level

This section provides evidence that the intraorganisational level’s internal organisational processes must be mutually consistent, plus they need to be aligned with individuals’ attributes and the broader external environment. As a corporation becomes more involved in economic globalisation, it undergoes a process of evolution in which business skills are highly associated with economic performance (Peng, 2003) and which leads to necessary strategic transitions in mode and scale, operations management, marketing strategies, and human resources (Geng, 1998). As a result of changes in individual attitudes, as well as in the environment, organisational adjustments must be made in order to develop needed functional capabilities which also ‘fit’ each other.

A critical constraint to the ability to transform or operate a firm is that of the managerial resource. The current scarcity of management talent in China is traceable to the practices of the Cultural Revolution, decades of subsistence-level living, and the historic large-organisational managerial roles of compliance and implementation rather than initiative (Redding, 2005). While entrepreneurial talent in small and medium-sized organisations has quickly emerged, a cadre of professional managers best-suited to building and strengthening large-scale world competitors remains underdeveloped. The residuals from a centrally planned economy continue to constrain effective management practice. The characteristic of traditional Chinese management, developed under the former centrally planned economy, which offer ongoing challenges to effective management practices, are the following:

- **Top-down decision making** – Workers wait for and follow the orders from higher-ups. Workers do not think creatively because the traditional reward system depended on age and time in service, not performance.

- **Vertical communication** – There is no effective communication processes between different management levels. Getting information from lower levels takes a long time because of the multiple levels in the organisation’s structure.

- **Focus on production** – In order to attain the production targets assigned by the central planning body, managers were trained to focus on production.

As a result, Chinese managers today tend to have limited understanding of many of the areas of business skills such as advertising, HRM, inventory control, accounting and finance (Bai and Enderwick, 2005, p.25). In addition, traditionally experienced Chinese managers tend to be risk-averse, do not understand the need for incentives in linking pay and performance, have little or no financial management skills, are unfamiliar with marketing activities, are unaware of the need to create competitive advantage, are unfamiliar with the need for leadership and governance skills, and are specialised in a single function rather than having cross-functional or integrative skill sets (Bai and Enderwick, 2005, pp.26–27). Thus, traditional values, traditions, practices and
cultures, as well as traditional business practices, may have negative effects on the firm’s economic opportunities and advances. As a result, developing an appropriately entrepreneurial, risk- and marketing-oriented perspective among the members and executives of the firm can be a challenging but critical goal. Integrating scientific approaches into Chinese management models and eliminating *renzhi* (management by way of personal power, rather than through regulations, legal procedures or economic factors) has been suggested as one step towards a more objective management process (Lu, 2003).

Firms operating in transitioning environments may adopt overly ambitious business approaches that do not match the organisation’s competencies or the market environment. In developing international alliances, for instance, a firm may discover a crucial incompatibility in culture and structural arrangements, the existence of which can be a barrier to success. An example of this was found in the differences between a French and a Chinese organisation in their policy decision-making, planning activities, delegation and organisation of management activity, leadership and authority roles, and coordination and control of staff (Tian and Cone, 2003). Any one of these combination of differences between the two firms can pose serious challenges to, and difficulties in, international business transactions, let alone this potentially lethal combination. There is then a need to identify, plan for, and eliminate deficient organisational processes.

While some Chinese industrial sectors have overall competitive advantages, notably low costs, these advantages are not bestowed automatically on all exporting companies; in fact, the Chinese firm faces significant disadvantages when undertaking a global strategy, since nation-specific endowments such as low labour costs cannot be exported (Sinha, 2005). Similarly, failure to develop branding identities or opting to specialise in commodity-like products can limit the potential for global success. Such deficiencies become pertinent for the globalising firm, and only become apparent upon evaluating the success of the strategy, unless the thoughtful executive considers and remedies them beforehand.

Along with the firm’s structure, the strategic leadership and the prime consideration of organisational participants are key considerations in transition economies. The firm’s ability to manage its human resources and the followers’ perception of the leader has been found to be important contributors to the Chinese firm’s performance (Law et al., 2003). The combination of a high level of expected contributions and a high level of incentives has been found in China-based ventures to be crucial to the firm’s performance (Wang et al., 2003).

Progress has been made on this front, although much remains to be done. Zhu and Dowling (2000), for instance, undertook an in-depth investigation of an SOE, which had become market-driven, actively marketed its products, had adopted an MBO and pay-for-performance systems. Its major HRM activities (human resource planning, recruitment and selection, performance appraisal, compensation and welfare, training and development and labour relations), however, were inadequate, with some existing only partially; others existed in name only or with traditional Chinese characteristics, and others were non-existent. However, another study of 96 state-owned enterprises in four special economic zones found new human resource management models to have been implemented, contributing to a substantial impact on enterprise performance (Deng et al., 2003). Much work remains to be done in developing effective human resource management systems, particularly for larger firms. An obvious conclusion to be drawn is
that the human resource management approach pursued by Chinese enterprises must be carefully aligned with its selected developmental strategy, and the firm’s strategies need to be aligned with its human element through appropriate formal processes.

4.4 The interorganisational level

The interorganisational level refers to the conditions within both local and global environments that affect or influence the organisation’s dynamics. A local response pertains to actions regarding relationships with the government and other domestic stakeholders, while the global response refers to actions regarding strategic alliances and partnerships developed across borders and the integrated web of activities pursued within an overall global framework.

4.4.1 The local environment and the firm

The domestic business environment of China is both dynamic and influential. Social institutions play an important role in a transitioning economy, and the regional economy also has the ability to affect firm performance (Law et al., 2003). The globalising Chinese firm may intend to build economies of scale through operations across China to help finance its international operations, a strategy fraught with difficulties. One of these difficulties is that China seems best described as a collectivity, with 23 provinces and five autonomous regions (further subdivisions of note also exist). Since the regions in China exert important and different influences on enterprises housed in each, the specific regional conditions pertinent to the business must be well understood; each region has its own cultural and economic characteristics, as well as its separate legal system, which may not be consistent from one region to another, and which operates to increase local protectionism. The intra-US or EU model, then, which recognises few significant regional barriers to commerce, typically cannot be applied to China. Thus, for the firm with pan-Chinese aspirations, each region must be dealt with and organised for separately, and not with a single location from which operations blanket the Chinese nation in a uniform fashion and yielding cost efficiencies through economies of scale for funding the globalisation effort.

Consequently, for the firm in transitioning countries such as China, working with local, regional and national governments is vital. In fact, most Chinese companies have a government relations officer who is responsible for both monitoring and managing relations with government agencies and individuals. For firms in transitioning economies, it is important to monitor and respond proactively to their domestic environments. So central to the conduct of business in China is maintaining good guanxi that it has been identified as the single most important business activity (Leung et al., 1996). As noted previously, guanxi is unusual in that it affects all levels of response in the Chinese organisation as an ambient factor; we consider it here for how it can extend to an entire organisation. In the latter context, the Korean chaebol and Japanese keiretsu offer examples of the institutionalised processes of cross-organisational guanxi. While guanxi may be available to an organisation, it becomes available originally only because of its genesis and residency within a specific individual (Davies et al., 2003), so it can be an ephemeral asset. Over time, though, the personal basis of guanxi can benefit or accrue to broader dimensions such as an employing department or organisation (Grainger, 2003). Guanxi is related to renqing, the social norm by which one should abide in smooth
and harmonious interpersonal relationships; it directly affects the Chinese legal system, employment nepotism, promotions, occupational advantages and disadvantages, corporate relations, international political structures, recruitment, transfers, apartment allocations and banquets (Grainger, 2003). Western joint venture partners apparently remain uncomfortable with China’s *guanxi*, using instead a clan-based, capitalistic approach that treats important outsiders collectively rather than individually (Jackson and Li, 2003). For Chinese and Western alliance partners, differing interpretations of *guanxi* can create difficulties, with implications for both management dynamics and the formulation of strategy.

Infrastructure is another important factor for business organisations to consider in transitioning environments. The evolving dynamics of mass media in China have implications for the firm’s strategy. While there are emerging opportunities relating to media expansion, challenges persist, such as governmental censorship, and organisations with interests in such a field need to carefully assess the landscape.

### 4.4.2 The global environment and the firm

In this section, we suggest that organisations in China should implement strategic approaches within a broader global context, and that these approaches should be considered alongside individual and organisational factors. For perspective, the scope and influence of China’s outward foreign direct investment reaches 139 nation states and territories, heavily concentrated in Australia, the USA, Hong Kong, Thailand, Russia, New Zealand, South Africa and Macao (Taylor, 2002). Chinese overseas ventures are typically of small scale, with an average capitalisation of US$3 million, are predominantly in service and processing, are becoming increasingly directed towards high-technology, and are likely to further expand (Taylor, 2002). Companies must assess the impact of market forces when formulating strategies in this type of environment (Kouzmin and Korac-Kakabadse, 1997). As the international arena comprises relatively new terrain for many Chinese firms, careful strategic planning and organisational enhancements become necessary.

Organisations in China are scattered across a wide range of development, although most are still in the initial stages of internationalisation (Geng, 1998). Internationalising organisations’ objectives and strategic actions vary with their experience bases and impact their business approaches in mode and scale, operations management, marketing strategies and human resources (Geng, 1998). In newly industrialising economies, firms achieve success when they strive for high levels of efficiency in their chosen areas of specialisation, develop a strong outward orientation, and pursue strategies consistent with changing cost and technology configurations (Lall, 1991). They tend to restructure, manufacture labour-intensive goods, transfer low-technology activities to lower-wage areas, and locate final manufacturing operations near new markets (Lall, 1991). This suggests that organisations must change to be able to respond well to a global environment.

New organisational models have emerged in response to the need to integrate business functions globally, yielding improved economic performance. Contract manufacturing firms in the electronics industry were found to have reinvented the value-chain capabilities by which they simultaneously created, penetrated, and defended their end-product markets; facilitated providing ancillary services; and transferred manufacturing capacity to globally located turn-key operating suppliers. As a result of
this new model, transaction costs were reduced, external economies of scale were expanded, and risks associated with numerous network participants were reduced (Sturgeon, 2002).

For international expansion, business success is also based on partnership selection. A potential partner’s strategic, organisational and financial characteristics must be carefully examined when considering international joint ventures (Luo, 1998). When forging international linkages, Chinese firms should consider the opportunity in conjunction with the potential partner’s characteristics and the market environment. For Chinese high-technology new ventures trying to create an international downstream alliance for marketing and distributing foreign products, for instance, firm characteristics and environmental factors were found to have important effects (Li and Atuahene-Gima, 2002).

Another factor is that of cultural and values compatibility in alliances; for example, important differences were found between Chinese and French managers in an automobile joint venture. Cultural disparity affected managerial perceptions and business activities that led to serious and mutual misunderstandings (Tian and Cone, 2003). Even within Greater China (Hong Kong, Taiwan and the People’s Republic) managerial values have been found to differ and thus need to be understood and reconciled. Managers in Hong Kong, Taiwan and the PRC are similar in their attitudes towards collectivism and uncertainty avoidance, but PRC managers display higher power distance and less concern for deadlines and plans than do managers in Hong Kong and Taiwan. Additionally, higher levels of materialism have been found among managers in the PRC and Hong Kong than in Taiwan (Cheung and Chow, 1999). This suggests that compatibility between cross-border partners can affect the outcome of international alliances and therefore needs to be given careful consideration before any agreement is undertaken. The organisation’s international strategy needs to be in line with its organisational competencies and capabilities.

The broadening of international markets offers Chinese organisations numerous opportunities to creatively use the internet and pursue e-commerce initiatives. To create effective e-commerce strategies, organisational form and coordination, strategic mode, and community and communication must be integrated. However, the pursuit of these opportunities must be weighed alongside individual and intraorganisational capabilities. Cultural and design differences have been noted between Chinese and US home pages, suggesting the need for heightened cross-cultural understanding (Zhao et al., 2003). When marketing products globally, companies in transitioning environments should not neglect pricing and branding issues. Customer performance satisfaction was found to decrease when Chinese exporters pursued price-leadership product strategies, but increased when Chinese exporters used a branding product strategy. Branding products and marketing brands to less developed countries significantly increased performance satisfaction than did branding alone (Brouthers and Xu, 2002).

4.5 Cross-level effects

From the previous treatments of the different levels for analysis of a firm’s directed efforts to become more globally and competitively adept, the opportunities for conflict between the conditions at two or more levels may be apparent. Ensuring compatibility between the actions taken at several different levels, alternatively, is necessary if not
sufficient to yield higher levels of performance. One could not suggest, for example, that hiring new managerial employees with high entrepreneurial potential (individual level) would be appropriate within a tightly regulated, high-security industrial sector (interorganisational level); a mismatch, conflict, poor alignment, or poor fit would be observed.

Key factors for Chinese firms in a transition economy are effective management of external relations, resource and skill building and utilisation of resources (Li et al., 1998); so, fit among these components would be conducive to higher performance. Thus, the external and intraorganisational levels in the Chinese business environment play significant roles. The individual level, too, must be explicitly considered, and strategic action across all three levels has to be closely aligned and integrated.

5 Discussion and conclusions

Individual, intraorganisational, and interorganisational levels play separate but interrelated and important roles in the organisational dynamics of companies in a transitioning environment such as China. Each of the three levels is interconnected with at least one of the other two. Strategic measures pursued in one level would affect the other levels. Critical to the effectiveness of the strategic success of the entire system is the necessity that all parts ‘fit’ with each other separately and severally, as well as the entire organisational system with its environment.

Consequently, we propose that an integrated approach be pursued, particularly in organisations in transitioning economies, although the benefits are not restricted to those firms. An organisational assessment and evaluation is necessary at each level. Companies need to precisely understand their current position. Additionally, planned strategies have to be implemented with a clear view of how each of the levels fit together. For instance, as a Chinese company appoints five new distributors in Europe, the ensuing organisational and individual implications need to be considered. A well-integrated holistic approach assists the process.

We present here a hypothetical case where the approach may be applied. A successful Chinese toy manufacturer has experienced moderate business success in Yunnan, China, for the past five years. As the company endeavours to build its consumer base, it launches and operates a website and runs a national advertising campaign. Owing to its exceptional product quality, orders pour in and sales expand rapidly. After three months, the company also receives a partnership offer from a US firm, and requests for agency agreements in Thailand, Brazil and Germany.

Based on the approach we have suggested, the Chinese enterprise needs to assess its individual, intraorganisational and interorganisational dimensions. With expanding sales in the domestic environment, the resultant effects on its employees and organisational structure need to be considered. Additionally, an assessment of the external environment has to be made in the context of local, international and global pressures. If the firm’s head decides to appoint the three interested international distributors, he or she must consider individual and intraorganisational implications. At the individual level, certain employees need to be trained in international culture, and language skills may need to be enhanced to facilitate international communication. In the intraorganisational level, a new department may need to be created to support international sales. In the interorganisational level, new measures may need to be applied to foster better
relationships with the new distributors, and market expansion may be deemed suitable in markets close to those of the distributor locations. The approach suggests that the selected strategic action of the Chinese company must tie in at all the levels. Addressing issues relating to only one or two levels rather than all the three can lead to the failure to achieve the desired objectives.

Although the example and the approach we have discussed specifically focus on China, a similar approach may be used in other transitioning economies experiencing the rapid and broad forces brought about by a global environment. The strategic-fit approach highlights the need for tighter and more thorough integration of organisational action by the globalising firm in a transitioning economy, and provides a framework for an effective strategic response to the challenges posed by globalisation.

References

The globalising Chinese enterprise 17


Note

1 Part of the unique nature of the Chinese business environment is that there are many categories of Chinese firms; each is different in important ways in its attributes, yet each one faces similar challenges in modifying traditional business practices and orientations in the face of heightened foreign competition and governmental expectations as those organisations represent the nation, and new forms of relationships with non-Chinese enterprises. We focus in this paper on the similarities in the challenges they face and their strategic responses, rather than on the differences in their natures.