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The following article, titled" Organizational changes in emerging economies: drivers and consequences" is partially adopted from Journal of International Business Studies (2006) 37, pp: 248-263. Please read it thoroughly and answer the questions.

1. According to the authors, "organizational change" is distinguished into technical and administrative changes. Do you agree to their typology? Why and why not? (25%)
2. Please derive a research framework for this article. You may draw a figure to express the causal relationships between the hypotheses to offer the readers a more conceptual understanding.(25%)
3. If you are asked to empirically investigate this research, what would you suggest? Please briefly describe the (1) sample, (2) data, and (3) methodology you like to use. (25%)
4. Taiwan and Mainland China are sorted to emergent markets or newly industrialized countries. What are the directions and determinants of the organizational changes of Chinese-based or Taiwan-based enterprises? (25%)

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Organizational changes in emerging economies: drivers and consequences

Kevin Zheng Zhou[1], David K Tse[1] and Julie Juan Li[2]

[1]School of Business, The University of Hong Kong, Pokfulam, Hong Kong; [2]Department of Marketing, City University of Hong Kong, Hong Kong

Correspondence:
KZ Zhou, School of Business, The University of Hong Kong, 7th Floor, Meng Wah Complex, Pokfulam, Hong Kong.
Tel: +852 2859 1011;
Fax: +852 2858 5614;
E-mail: kevinzhou@business.hku.hk

Abstract

Organizational change in emerging economies, although difficult, is inevitable. The authors study the drivers and consequences of organizational changes in an emerging economy, China. The results of a firm-level survey show that organizational changes in technical *vs* administrative areas are differentially driven by firms' motivation to change (past performance), opportunity to change (firm location and market orientation), and capability to change (firm ownership, managers' change attitude, and leader charisma). Furthermore, technical and administrative changes affect firm performance through distinct paths. Technical changes have a direct, positive impact on performance, whereas administrative changes enhance firm performance indirectly through technical changes, and the effect of administrative changes on performance is strengthened by the presence of a participative culture.
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Introduction

To maximize their operational efficiency, organizations often develop and govern their work routines through accepted rules and systems (D'Aunno *et al.*, 2000). Organizational change disrupts these repetitive work routines by introducing new rules and systems into the operation. Therefore, as structural inertia theorists such as Hannan and Freeman (1984) propose, organizational change is very difficult because the institutionalized routine activities create strong internal resistance to change. Granovetter (1985) similarly suggests that organizational change is difficult because organizations are deeply embedded in the institutional and technical structures of their environment. Amburgey *et al.* (1993) further indicate that organizations strongly resist change in most cases (see also Greenwood and Hinings, 1996; Greve, 1998; Miller and Chen, 1994). Today's business environment, however, is increasingly uncertain and risky. Hence, knowing how to adapt and change successfully has become a critical and timeless challenge for any organization (Brown and Eisenhardt, 1997; Feldman, 2004; Pettigrew *et al.*, 2001; Piderit, 2000).

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This challenge is even more intense in emerging economies, which are undergoing unprecedented transitions in their social, legal, and economic institutions that raise serious adaptation problems for enterprises (Boisot and Child, 1996; Peng and Heath, 1996). As Hoskisson *et al.* (2000, 252) explain, '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.' Because change is inevitable but organizations strongly resist change, it is important to understand what facilitates and what inhibits organizational change in emerging economies.

However, extant organizational change theory provides only limited insights into these questions. In their review of contemporary literature, Pettigrew *et al.* (2001, 697) comment that 'the field of organizational change is far from mature' and identify several areas for further research. In particular, they call for more examination of multiple contextual variables, such as the market environments in which a firm is located, the firm's history and organizational culture, and power and the politics that enable and constrain change. They also encourage assessments of the direct impacts of organizational change on performance because 'in very few empirical studies do researchers seek to link change capacity and action to organizational performance' (p. 701). In addition, they suggest more work in international contexts, signifying the necessity of studying organizational change in emerging economies. Up till now, organizational change research in emerging economies has focused mainly on 'state-level policies, such as liberalization and privatization, leaving firm-level strategies relatively unexplored.' Consequently, 'how organizations strategize during *fundamental* institutional transitions still remains largely unknown' (Peng, 2003, 277; see also Denison, 2001).

To fill these research gaps, we take advantage of China's transition to study the firm-level drivers and performance consequences of organizational change. We use an integrative framework of organizational change (Greve, 1998; Miller and Chen, 1994) to examine how changes in technical and administrative areas are driven by a firm's motivation, opportunity, and capability to change. We also assess the impacts of technical and administrative organizational changes on subsequent firm performance, as well as how a participative culture moderates the effect of organizational changes on performance (see Figure 1). Through these efforts, we attempt to enrich the understanding of how organizations can break down institutional inertia and undertake changes, and how these changes affect organizational performance in emerging economies.

Conceptual development

Organizational change

Organizational change occurs in a variety of forms: it could be the introduction of new technology and procedures, new products (often for new clients), new administrative systems and processes, or anything else new to the organization (Brown and Eisenhardt, 1997; Haveman, 1992; Rajagopalan and Spreitzer, 1996). Recent literature on the development of organizational change suggests that a contrast between two perspectives is emerging (e.g., Tsoukas and Chia, 2002; Weick and Quinn, 1999). The more conventional one (e.g., punctuated equilibrium model) views change as episodic, discontinuous, and intermittent, and argues that organizations undergo occasional dramatic revolutions or punctuations to overcome organizational inertia and establish new sets of rules and processes for the organization to follow (e.g., Amburgey *et al.*, 1993; Tushman and Anderson, 1986; Tushman and Romanelli, 1985). Consistent with this logic, many researchers have operationalized organizational change as a particular episode or event (e.g., changing to a for-profit organization, Ginsberg and Buchholtz, 1990; converting from a single-sex to a coeducational institution, Zajac and Kraatz, 1993), and have examined the factors that facilitate or inhibit such dramatic shifts (cf. Rajagopalan and Spreitzer, 1996).

More recently, however, scholars have proposed that a continuous and evolving view of organizational change is a more fitting description of the change phenomenon, especially in highly uncertain and volatile markets (e.g., Brown and Eisenhardt, 1997; Feldman, 2004; Tsoukas and Chia, 2002; Weick and Quinn, 1999). Brown and Eisenhardt (1997, 1), for example, argue that for many firms 'change is not the rare, episodic phenomenon described by the punctuated equilibrium model but, rather, it is endemic to the way these organizations compete.' They further indicate that the ability to engage in rapid and relentless change is a critical survival capability for firms in highly uncertain environments. Consistent with this view, some researchers have begun to explore, through in-depth case studies, the role that firm resources play in building the firm's ability to change (e.g., Feldman, 2004).

Given the highly volatile nature of emerging economies (Hoskisson *et al.*, 2000; Peng, 2003), we take the continuous perspective of organizational change and view it as 'situated and grounded in continuing updates of work processes and social practices' (Weick and Quinn, 1999, 375). In constructing our model, we draw from the motivation–opportunity–capability framework (Greve, 1998; Miller and Chen, 1994) to study three essential facets of the drivers of organizational changes: *motivation*, *opportunity*, and *capability*. First, the motivational component, as discussed mostly by political decision theorists, suggests that incentives (e.g., poor performance) must exist for firms to question their existing course of action and search for new methods (Allison, 1971; Greve, 1998; Starbuck and Milliken, 1988). Second, firms must be aware of the change requirement and find attractive alternatives before they can change, as learning theorists have proposed (Huber, 1991; March, 1991; Slater and Narver, 1995). Third, organizational change scholars claim that the capability to change is important because firms may initiate changes that are inhibited by organizational constraints (Amburgey *et al.*, 1993; Greenwood and Hinings, 1996; Hannan and Freeman, 1984).

Extending previous work, we examine the factors that drive firms to change continuously in two areas: technical and administrative. *Technical* organizational changes 'pertain to products, services, and production process technology; they are related to basic work activities and can concern products, service or process' (Damanpour, 1991: 560; Brown and Duguid, 1991). Such changes might be the results of implementing an idea to develop new products, a process to improve production efficiency, or a new way to enhance product quality. In contrast, *administrative* organizational changes involve organizational structure and administrative processes. They relate indirectly to the basic work activities of an organization and are more directly related to its management (Damanpour, 1991; Tsoukas, 1996). For example, an administrative change might be manifested as a new way to recruit and train personnel, different allocations of firm resources and profits, or changes in the business operation processes. Normally, administrative changes represent a greater departure from the *status quo* and require a longer time horizon to implement than do technical changes (Damanpour, 1991; Damanpour and Evan, 1984).

Because it emphasizes both social structural and technological changes, the technical *vs* administrative distinction represents a general, comprehensive classification (Han *et al.*, 1998). As such, this typology appears to be particularly relevant for firms operating in emerging economies, in which the changing environment poses great pressures for firms to adopt advanced technologies and modern management systems (Child and Tse, 2001). In the fast-changing environments of emerging economies, firms may demonstrate differential needs for changes in technical and administrative areas (Keister, 2002).

Drivers of organizational change

Motivation to change

Organizational change is a risky decision, so managers must have legitimate reasons and compelling incentives to break their existing routines. Past performance is one such motivator. Extant studies, however, have provided inconsistent predictions regarding the relationship between past performance and organizational change. Some researchers suggest that poor performance widens the gap between managerial aspirations and achievements, thereby providing a strong incentive for firms to look for new ways to improve (Greve, 1998; Miller and Chen, 1994; Tushman and Romanelli, 1985). Other researchers argue that good performance continuously motivates companies to change, especially in uncertain environments (Brown and Eisenhardt, 1997; Feldman, 2004; Tsoukas and Chia, 2002). As Brown and Eisenhardt (1997) observe, many successful firms, such as Intel, 3M, Hewlett-Packard, and Gillette, have undertaken constant, rapid changes, particularly in their new product development.

This controversy might be resolved in part by distinguishing between technical and administrative changes, especially in terms of emerging economies. The rapidly changing nature of emerging economies may provide an environment favorable to technical changes. In emerging economies, where the only thing constant is 'change' (Hoskisson *et al.*, 2000), firms must accept the necessity to continuously reinvent themselves (March, 1991; Slater and Narver, 1995; Tsoukas and Chia, 2002). Because good performance reinforces managers' confidence in their internal operations and administrative systems, they tend to focus more on improving product and technological areas to secure future success. As Brown and Eisenhardt (1997) explain, successful past performance stimulates managers to explore the future by experimenting with a wide variety of product and technological probes and to link present products to future ones, creating a relentless pace of technical changes. The pursuit for technical improvement is more evident in emerging economies such as China, which lags behind developed economies in terms of technological development (Zhou *et al.*, 2005). Thus, the better a firm performs, the more likely it will invest in new product development and technology advancement to achieve a sustainable competitive advantage.

Unlike technical changes, which center mainly in the R&D and production divisions where yardsticks are commonly accepted, administrative changes relate to new procedures in a firm's key managerial processes. The newly introduced work templates (e.g., new compensation and reward systems) are likely to cut across functional divisions and involve changes throughout the whole organization (Damanpour, 1991; Han *et al.*, 1998). Therefore, administrative changes represent a greater departure from existing organizational routines and tend to receive strong resistance from constraints inside the firm (Hannan and Freeman, 1984). Relatedly, Tse *et al.* (1994) find that conflicts and disagreements in administrative areas are much more difficult to resolve than those in technical areas. In addition, the benefit implications of technical changes – such as introducing new products and improving product quality – are straightforward. In contrast, administrative changes, such as reforming the personnel management system and restructuring the business operation system, have only vague implications for future performance (Damanpour, 1991). As a result, administrative changes are difficult to initiate without strong and legitimate reasons. Poor past performance signifies the ineffectiveness of the existing operations, and thus provides strong and legitimate reasons for firms to reform their administrative systems. Therefore, we predict that

> **Hypothesis 1a:** Recent past performance is positively related to technical organizational changes.

> **Hypothesis 1b:** Recent past performance is negatively related to administrative organizational changes.

Opportunity to change

Firms can be aware of alternative ways of doing business through two sources. First, the market environment in which firms *locate* offers vivid examples of how various competitors operate and perform, which provides firms opportunities for organizational changes (Greve, 1998; Miller and Chen, 1994). Second, companies can actively identify new alternatives by monitoring customers and competitors closely through a *market orientation* (Day, 1994; Jaworski and Kohli, 1993; Slater and Narver, 1995).

Firm location: Firm location greatly affects firm operations in emerging economies such as China (Park and Luo, 2001). In China specifically, because of its sensitivity to political and social considerations, institutional reform has been nonlinear and has displayed a mixture of progress and regress (Nee, 1992). Accordingly, out of the consciously experimental reforms, different governance systems have emerged in different areas (Boisot and Child, 1996). Areas designated as experimental reform zones have been the most affected. The inconsistencies in the Chinese reform agenda give rise to wide variations in the economic development, business atmosphere, and government policies across different areas (Lau *et al.*, 2002).

More developed, open areas have attracted the majority of foreign investments; in turn, the influx of foreign firms brings about new methods of competition, marketing, and management. In these areas, a market-based economy, in which Western-style business operations apply and competition is getting intense, is emerging (Park and Luo, 2001). The diversity of the market exposes companies to a variety of new ideas and processes, which enable them to initiate changes (Miller and Chen, 1994). Furthermore, in a highly competitive environment, firms learn more about the operations of their competitors and the demand of the market. This helps firms generate insights about taking new actions, such as cutting-edge technologies and modern administrative systems, to keep up with competition (Day, 1994).

In contrast, in less developed areas, the legacies of the country's planned economy are evident: competition is minimal, government intervention is strong, and resources are scarce (Boisot and Child, 1996). In such a relatively stale and homogeneous learning environment, companies have little access to new ideas, processes, or technologies (Levinthal, 1991; March, 1991). Even if they have strong motivations to pursue new opportunities, their limited exposure to new information sources constrains their ability to find new ways to initiate changes, which forces them to 'rely more on guanxi connections to compensate for such constraints and disadvantages' (Park and Luo, 2001, 461). Therefore,

> **Hypothesis 2:** Firms in more developed areas are more likely to undertake technical and administrative organizational changes than are firms in less developed areas.

Market orientation: The awareness of alternative ways of doing business also depends on how a firm interacts with its environment (Greve, 1998). Market orientation is an important way through which firms interact with their environment, yet its effect on organizational change has received limited attention. Market orientation places the highest priority on serving customers successfully through a thorough understanding of customers and competitors (Jaworski and Kohli, 1993; Slater and Narver, 1995). In other words, a market-oriented firm pays close attention to its customers and watches its competitors carefully so as to best serve its customers. By doing so, market orientation enables a firm to find a variety of new ways or ideas about how to deliver superior customer value (Day, 1994). For example, a market-oriented firm can recognize the gap between its market offerings and its customers' needs from interacting with those customers and then find new ways to fill that gap through product, service, and/or process improvements (Han *et al.*, 1998). Hence, market orientation is facilitative to technical changes.

Furthermore, monitoring its competitors closely helps the firm understand how competitors operate, which in turn gives the firm fresh ideas about improving internal administration (Porter, 1985). Using its rivals as a frame of reference, a firm can compare its administrative systems with those of others and then reconfigure its own internal operations such as personnel management to compete more effectively against its rivals (Day and Wensley, 1988). For these reasons, we predict that

> **Hypothesis 3:** Market orientation has a positive impact on technical and administrative organizational changes.

Capability to change

Organizations differ in their change patterns, as they differ in their capabilities to overcome constraints such as bureaucratic rigidity, insularity, and institutional networks (Greenwood and Hinings, 1996; Hannan and Freeman, 1984). Firm size and age are two constraints that have received much attention in previous studies (e.g., Greve, 1998; Hannan and Freeman, 1984; Miller and Chen, 1994). We focus on *firm ownership*, a particularly salient factor for transition economies (Park and Luo, 2001), and examine two characteristics of firm leaders (i.e., *leader charisma* and *change attitude*) because of the pivotal role that leaders play in overcoming inertia and initiating change, especially in risky and uncertain environments (e.g., House *et al.*, 1991; Kotter, 1995; Nadler and Tushman, 1990).

Firm ownership: A critical strategy of the reform in China (and also in other emerging economies) is its privatization drive for its state-owned enterprises (SOEs) (Hoskisson *et al.*, 2000; Park and Luo, 2001). During the past two decades of privatization, alternative firm ownership types that operate on the basis of market forces have emerged, including privately owned firms, joint ventures, stock enterprises, and so forth (Boisot and Child, 1996; Child and Tse, 2001).

In the past, SOEs operated according to the input and output quotas mandated by the government, which accustomed them to executing rather than planning and deciding the future direction of the firm. Currently, SOEs have attempted and been encouraged by the government to undertake transformations into market-based firms to survive intensified competition. However, this attempt has been hampered by the entrenched routines and historical influence of the planned system (Boisot and Child, 1996). Furthermore, many SOE managers are selected not according to their technical expertise or administrative capabilities, but according to their ability to follow executive orders (Peng and Heath, 1996). Their inability to master modern technology and administrative efficiency greatly hinders the organization's capability to change. In contrast, non-SOEs were born as market-based firms, so their managers tend to develop a strong sense of market uncertainty and take quick actions to respond to market changes (Boisot and Child, 1996). Therefore, non-SOEs are more capable of improving in technical areas, such as introducing new products or restructuring production procedures, as well as in administrative areas, such as adopting new accounting standards, better bonus systems, or performance-driven reward systems.

Hypothesis 4: Non-state-owned firms are more likely to undertake technical and administrative organizational changes than are state-owned firms.

Change attitude: For any business, one critical capability of change lies in the characteristics of the leadership, because change essentially requires leaders to create a new system and institutionalize new approaches (Kotter, 1995; Nadler and Tushman, 1990). Major changes are impossible if the leaders of an organization possess unfavorable change attitudes, as they constitute one of the most important internal sources of political resistance (Goodstein and Boeker, 1991; Hannan and Freeman, 1984). Thus, to break institutional constraints, leaders must believe in and hold a favorable attitude toward change, which grants legitimacy to organizational change, especially when the consequences of that change are not as obvious. The leaders' favorable change attitude also facilitates an organizational climate that encourages changes, disrupts existing bases of power, and overcomes internal political constraints (Goodstein and Boeker, 1991; Kotter, 1995). In the implementation stage, the leaders' favorable change attitude is especially needed to create the interdepartmental coordination and conflict resolution that can ensure the success of the change (Damanpour, 1991).

Hypothesis 5: Leaders' favorable change attitude has a positive impact on technical and administrative organizational changes.

Leader charisma: Capability to change also comes from leader charisma, a special quality that 'enables the leader to mobilize and sustain activity within an organization through specific personal actions combined with perceived personal characteristics' (Nadler and Tushman, 1990, 82). With their personal qualities, charismatic leaders can have profound and extraordinary effects on followers and achieve high levels of follower motivation, respect, trust, and loyalty (Bass and Avolio, 1994). Leader charisma helps firms overcome their internal pressures and facilitates changes through envisioning, energizing, and enabling. First, charismatic leaders create an exciting, identifiable, and desirable picture of the future that the change will bring about. This picture provides followers with a vehicle through which they can develop commitment, as well as a psychological focal point for their hopes and aspirations (Nadler and Tushman, 1990). Second, charismatic leaders energize organizational members to change the *status quo* by expressing personal excitement and confidence, stressing a strong sense of the collective mission, making personal sacrifices, and avoiding the use of power for personal gain (Awamleh and Gardner, 1999). Third, charismatic leaders enable followers to act in the face of challenging goals through support and encouragement. Consequently, employees pursue those goals with more enthusiasm and have more confidence to undertake the changes (Bass and Avolio, 1994). In these ways, charismatic leaders can lead their firms to break down internal barriers and inertia and undertake changes more easily. Therefore,

Hypothesis 6: Leader charisma has a positive impact on technical and administrative organizational changes.

Consequences of organizational change

Hannan and Freeman (1984) suggest that, because organizational change disrupts the internal routines and external linkages of an organization, it may be detrimental to firm performance. However, more recent work suggests that the impact of organizational change on performance may depend on the environment. For example, Haveman (1992) proposes that, when change occurs in response to a dramatic restructuring of the market, it benefits organizational performance and increases survival chances. Brown and Eisenhardt (1997) similarly indicate that, in highly competitive and fast changing industries, the ability to change rapidly and continuously is crucial for survival and success. Tsoukas and Chia (2002) further argue that, in the current turbulent environment, change may constitute reality, and organizations must embrace change more openly and consistently to achieve superior performance.

We expect that both technical and administrative changes are beneficial to firm performance in emerging economies, in which business environments change quickly and are highly uncertain. As Damanpour and Evan (1984, 393) note: 'Organizations can cope with environmental changes and uncertainties ... by successfully integrating technical or administrative changes into their organizational structure that improve the level of achievement of their goals.' Changes in technical systems involve new processes to improve efficiency, new ways to enhance product quality, or ideas of developing new products that may reduce product costs or enable the introduction of new or better products. Because new products likely face little competition when first introduced, they often can earn a higher level of profit (Roberts, 1999). Furthermore, by providing its customers with the most up-to-date and innovative market offerings, a firm can smooth out uncertainties in market demand (Han *et al.*, 1998). In addition, a firm may fall into competency traps when it devotes itself to perfecting existing work routines that are inevitably rendered obsolete by the rapidly changing environments (Levinthal and March, 1993). Changes in administrative structures and processes thus enable a firm to better meet the new environmental conditions and effectively handle environmental turbulence (Damanpour and Evan, 1984). Therefore,

Hypothesis 7a: Technical organizational changes have a positive impact on subsequent firm performance.

Hypothesis 7b: Administrative organizational changes have a positive impact on subsequent firm performance.

While technical changes primarily involve the product- or technology-related processes of a firm's operation, their successful implementation often requires support from corresponding changes in the administrative processes (Tsoukas, 1996). For example, if a bank intends to introduce a new service, a new set of administrative mechanisms is needed to train the bank staff and evaluate or control the performance of the service (Han *et al.*, 1998). Although the connection between technical and administrative changes is not strictly a one-to-one relationship, organizational changes in social processes often act as prerequisites to the adoption of technical changes (Damanpour and Evan, 1984). In addition, firms can introduce new administrative systems, such as new incentive schemes or continued education to motivate and improve their employees' ability to create and innovate, thereby enabling more changes in their technical improvements (Damanpour and Evan, 1984). Thus, we posit that administrative changes lead to more technical changes.

Hypothesis 8: Administrative organizational changes have a positive impact on technical organizational changes.

Participative culture as a facilitator

The implementation of organizational change is difficult because it disrupts the existing stable work routines and requires that members of the firm learn new patterns of communication to facilitate information flow, integrate new members to fill new job functions, and establish new work routines to manage the altered work flow (Amburgey *et al.*, 1993; Haveman, 1992). The success of organizational change thus needs universal acceptance and the support of employees at different ranks in the firm, suggesting the importance of a participative culture in implementing changes.

A participative culture emphasizes the importance of unity, cooperation, and belonging among employees, promotes employees' understanding of both the firm and the market, and encourages their participation in decision-making (Quinn, 1988). It helps hold employees together and explains '*why* things happen the way they do' rather than simply '*what* happens around here' (Deshpande and Webster, 1989). In a firm with a participative culture,

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because employees share the same identity and understand why new actions and changes are necessary, they are more willing to work together and engage in new activities. Therefore, a participative culture facilitates the change and strengthens the effects of organizational changes on firm performance. In other words, a participative culture positively moderates the relationship between organizational change and firm performance.

Hypothesis 9: The stronger the participative culture, the stronger the impact of organizational changes on performance.