Guest editorial: Institutions, corporate governance and entrepreneurship: a research agenda for Chinese world-class enterprises

1. Sources of world-class
As the second-largest economy in the world, China’s influence permeates the global value chain. As such, Chinese companies’ global presence has become more prominent. In 2021, a total of 143 Chinese companies made it to the Fortune Global 500 list, surpassing runner-up USA for the second consecutive year. The noticeable performance of Chinese companies in the ranking manifests, to some extent, the Chinese government’s initiative to support indigenous firms to become “world-class enterprises” as a shift to an innovation-driven growth model, against the backdrop that international competition is intensified in the world trade and international relationships (Utar and Ruiz, 2013).

A fundamental question here is: to what extent are Chinese companies world-class? Being the best in the world for a particular industrial sector can be identified as world-class (Todd, 1995). Often, a leading global marketplace may breed world-class businesses. The first industrial revolution not only brought prosperity to the Western countries but also produced many world-class business giants that have dominated the global trade for more than 200 years (Von Tunzelmann, 1997; Wright, 1990). From a dynamic perspective, argues that such global dominance requires firms to make continuous improvements to achieve high quality, low cost and delivery on time, all of which make them “world-class.” However, recent studies (Furlan and Vinelli, 2018) invite us to extend the definition of “world-class companies” by combining innovation into the improvement dimension. Hence, the world-class is not necessarily the best giant like Microsoft or Apple, but also can be a “hidden champion”. Inspired by the multinational business successes, many scholars have investigated world-class manufacturing (Flynn, et al., 1999; Muda and Hendry, 2002) and world-class enterprises in the developed economies. By certain measures, a number of Chinese enterprises can be classified as world-class. Yet, their behaviors have been found to be different from that of traditional world top enterprises (Casanova and Miroux, 2019).

World-class enterprises must be capable of leading industrial upgrades, maintaining market competitiveness and gaining global recognition for a long time (Huang et al., 2017). How do leading Chinese companies feature against such measures? The answer is we still do not know much. A dearth of research on Chinese firms from a world-class enterprise perspective motivates this special issue to investigate the various growth paths of Chinese leading Fortune Global 500 enterprises and, among many others, explore their business and management models, and also quest whether they are ready to become world-class enterprises.
In the last decades, most research about China’s enterprises took a theoretical framework as given, instead not investigating the evolutionary process of China’s practices. Such a dichotomy might be problematic and reflects the lack of original exploration of Chinese companies’ practices (Dai and Taube, 2020; Li et al., 2020; Wei et al., 2018). For example, Huawei experienced impressive growth in 30 years and now generates global impacts. Still, we know little about its business strategies, and business studies should explore more cases like Huawei (Guo et al., 2019). China’s development also invites such attention that has been paid to other industrialized economies. Furthermore, the orthodoxies believe that there is only one causality between the market system and enterprise development. China’s institutional framework is unique and context-specific, which requires much more original works to explore the nature of the world-class system that supports world-class enterprises (Feng and Jiang, 2021; Howell, 2019; Pepermans, 2020). For example, how should the government design and implement industrial policies? Can state-owned enterprises (SOEs) lead and perform in a business system in which private capital dominates? These interesting questions will be addressed one way or another in this special issue.

2. An introduction to this special issue
Exploring the Chinese world-class enterprises’ growth paths, business practices and management models are our primary aims in this special issue. We hope that this special issue will contribute not only to the long-standing literature about corporate competitiveness and governance (Harrison, 1998; Mutlu et al., 2018) but also to a better understanding of the impacts of institutions in the context of catching up and national system of innovation (Freeman, 1995; Fuller, 2009; Lundvall, 2007).

We cannot ignore the substantial influence of China’s specific institutional setup. Mixed ownership serves a specific institutional scenario for Chinese enterprises in dealing with state–business nexuses. In particular, both the increase of private ownership in SOEs and the presence of state assets in private enterprises raise concerns about the effectiveness of corporate governance as legalizing state bureaucracies’ intervention. Liao et al. (2022), in this issue, investigate how the state and the largest private shareholders exert impacts on firms’ performance and find that state ownership does not hurt firm performance in the minority SOEs mixed with private shareholders, whereas such moderation effect does not exist in majority SOEs. Those findings may invite us to reflect on the prejudice toward state ownership and recognize the significance of interactive mixed corporate governance in addressing agency problems by changing equity structure.

World-class enterprises should not be assigned to any specific ownership. The case Shen et al. (2022) studied demonstrates that SOEs, without government protections, can develop their global competitiveness and technological capabilities in China’s grid equipment sector dominated by multinational incumbents as well. Nanrui Electric, the little-known champion in the grid equipment industry, is a scientific and technological SOE transitioned from an industrial research institute. It has challenged the global giants (e.g. ABB, Siemens) and become a leading supplier in the field of high-voltage direct current engineering, by adopting an engineer-oriented business model featuring intensive interactions between frontline “sales-development-engineering” teams and home-base R&D, in acquiring and using context-based knowledge to provide complex, user-customized and context-specific products to various users. This business model depends on a number of conditions including high-quality and large-scale engineering workforce, as well as managerial arrangements and incentives, which facilitates collective organizational learning focused on technology R&D over the long-term. This business model functions differently from the prevailing traditional M-form MNC and global production networks, and it highlights the
significance of gaining niche markets with high technical requirements in China and then extending its overseas business in more than 100 countries and regions, of which some are traditionally the market shares of the multinationals. The success of this SOE tells that the key to being world-class is to accumulate context-based knowledge and meet the complex and diversified needs of users.

The Chinese automobile firms that Li et al. (2022) explored exhibit an opposite case, compared with Nanrui Electric. Since the 1980s, Chinese state-owned automobile firms enjoyed considerable operational advantages and profits, taking the advantage of the joint ventures with the multinational automobile giants that entered the Chinese market under the “technology transfer-market access-exchange” strategy. This strategy initially was designed to trigger an interactive technology transfer and absorption for Chinese firms; however, considerable profits motivated the firms in an unexpected opposite way. As the Chinese government restricted private entrepreneurship in the automobile sector in the 1990s, the SOEs did not invest too much in new product development, and spillover from joint ventures to China’s domestic automobile sectors was considerably low. Hence, one may notice the outstanding performance of China’s automobile firms in the various global ranking, if in terms of operational scale and sales. However, Chinese automobile firms still lagged very far behind their world-class peers. Especially, Chinese domestic firms developed unevenly so that they could not make progress in the core parametric dimensions, such as brand reputation and innovation capacity, as the evaluation of Li et al. (2022) shows. These two above cases, therefore, validated the mighty roles of technological accumulation and strategy innovation to promote world-class enterprises, and largely denied the significance of ownership in this context.

It is not new to stress the substantial role of technological innovation in nurturing world-class enterprises. Regarding China’s national mission of such an achievement, we cannot ignore the ongoing inputs from governments; for instance, subsidizing research and development is often applied, to motivate firms’ innovative efforts. Xie et al. (2022) scrutinizes how government subsidies influence firms’ innovation performance, via detecting different institutional logic embedded in SOEs and private-owned enterprises (POEs). They find that the SOEs treat subsidies with more political logic, whereas the POEs behave with market logic. However, promoting firms to be internationalized actually can strengthen firms’ awareness of using government subsidies in improving innovation performance, regardless of ownership, as they find that the positive effect of government subsidies on innovation performance becomes larger, as the degree of internationalization becomes higher.

Nevertheless, internationalization can be risky for firms as well, for example, in dealing with cultural distance in management. Cross-border mergers and acquisitions (M&A) have been an effective way to bring Chinese firms and investment to the global landscape and may continually help the firms to be world-class. In this special issue, we mainly explore the significance of establishing Chinese firms’ ability in dealing with difficulties in M&A activities. The work of Gu and Meng (2021), based on multiple cases of local firms becoming world-class through M&A of hidden champion firms, answers how to facilitate social capital of firms in dealing with the complex cross-culture issues and accumulating competence. Social capital enables firms to be involved much easier in communication with employees, and in particular, dealing with conflicts between acquirers and mergers in post-merger integration. They conclude a dynamic interactive association between social capital and firms’ cross-cultural competence in internationalization knowledge, shared cognition, integration strategy and skill and strategy implementation. In the preparation stage, social capital can match two firms; in the transaction stage, social capital can bridge two parts for
communication, negotiation and transaction; and in the integration stage, social capital may bond the firms tightly. Meanwhile, as M&A firms are experiencing in enriching competence, their social capital can be accumulated as well.

Chinese firms may have to tackle the disadvantages associated with their origin in China. Chinese firms are not unique in this regard; emerging economies are often synonymous with low-quality products and services because of their capacity deficits in technology, capital access and legal setup (Tan and Yang, 2021). The findings of Jiang et al. (2022) in this special issue may be meaningful for those aiming to explore global markets and to be world-class businesses. Their research explores the liability of origin problem with the special attentions to the heterogeneity of countries, industries and firms. Using 780 cases of cross-border acquisitions by Chinese multinational enterprises between 2008 and 2018, they claim that firms from high national strength industries have less chance to complete an acquisition deal, because Chinese multinational enterprises’ rising international influence may face suspicion and hostility from the host countries. This finding is coherently in line with the confirmed positive association between a country’s political affinity and deal completion. However, global experience and foreign public list may reduce the disadvantages affiliating to their Chinese origin. Hence, to be world-class requires firms to be strategically active in gaining international reputation and challenge the negative stereotypes in the host countries, by enriching the international business experience.

To localize overseas business, Chinese firms often employ expatriate supervisors to coach and supervise local employees through guidance, encouragement and feedback. With a sample of 230 Zambian subordinates, Niu et al. (2022) explores how to enhance local subordinates’ thriving at work through managerial coaching, and accordingly, to improve firm performance. They stress that expatriate supervisors’ cultural intelligence may be the most essential parameter in consolidating the value of coaching efforts in organizational learning. Experienced supervisors in both Chinese and foreign culture may understand and fill gaps in norms, customers, laws and regulations, so that they can play a much more effective role in communicating with local subordinates, transferring knowledge, stimulating employees, and so on.

Going global also involves noneconomic risks for the Chinese multinational. In this special issue, Yuan et al. (2022) dig into the impacts of risk, i.e. corruption in the host countries, on China’s outward foreign direct investment, through investigating China’s investment in 35 African countries from 2007 to 2015. They find that Chinese investors invested more in the countries with low corruption, except for resource-seeking investments. This finding is meaningful for the inexperienced investors from China as expanding business in Africa. In addition, they also indicate that Chinese firms must exercise legal and ethical investment, as they aim to be world-class whether they are in China or beyond its borders, in the particular context of the Chinese anti-corruption system is comprehensively established.

Entrepreneurship and innovation supply functions as another fundamental value for cultivating world-class enterprises. Entrepreneurial orientation has been one of the essential predictors of successful entrepreneurship; however, the strategic orientation of being innovative, proactive and risk-taking sometimes bring disadvantages under certain circumstances. Inspired by the ongoing uncertainties in the business environment for the Chinese firms, Ma and Yang (2022) claim that the young and vulnerable start-ups must effectively integrate resources and recognize opportunities, to overcome the potential disadvantages. As facing economic dynamics, the start-ups with entrepreneurial orientation may perform better, as they are more sensitive to deploy resources through entrepreneurial
bricolage than those are not entrepreneurial; and maintaining a keen awareness of rising opportunities can save the start-ups from failure to a significant extent.

Being innovative does not guarantee a successful transition to being world-class, in particular, as firms could be trapped in meaningless innovation. Wang et al. (2022) claim that the traditional “technology and market” driven paradigm lacks resilience in dealing with volatility, uncertainty, complexity and ambiguity (VUCA) of the new era, and they suggest meaningful innovation as an alternative paradigm in response to the VUCA challenges. Meaningful innovation magnifies the harmony of “science and technology, economy and human nature,” and abandons short-termism, unsustainability and negative feedbacks. Such a conceptualization awfully coheres with Chinese traditional Confucian business thought featuring “benefiting the world” of humans. Hence, combining meaningful innovation and entrepreneurial orientation might be essential focus for the Chinese firms aiming to be world-class in the future.

3. Future research
The special issue has extensively explored opportunities, challenges, successes and lessons from both theoretical and empirical perspectives and opens many questions for future research. While many Chinese firms are aspiring to become world class, they are nonetheless facing an extremely uncertain world environment in which the decoupling of the Sino-US economy is evolving, and business competition is getting politicized. Under these circumstances, it is not just that the doctrine of globalization that is being challenged amid the gaining support of de-globalization. That the globalized world would be split into two parallel business systems underpinned by ideology was unthinkable a few years ago but is now a possibility. What role can Chinese companies play in such a fast-changing and highly uncertain environment? How do they build a world-class business, and in what sense? How should leading Chinese companies adapt to the new environment and thrive? All these questions require answers with more research. As a rising developing economy, China is passionate about promoting its firms to be world-class. The strategic role of governments in shaping industrial upgrading (Lee, 2021; Zou et al., 2022), therefore, deserves more perspectives in future research. For instances, how to make a trade-off between internationalization efforts and gaining industrial subsidies? How do the Chinese firms respond to the global geopolitical turbulence and rising economic shrink risks?

Going global and structural upgrading for Chinese firms are the ways of out of dangers, and the firms have to embrace the approaching challenges in M&As, establishing multinational ventures and other global business operations. Firms may gradually gain cross-cultural experiences and competencies but have to bear costs. To be world-class is not only maintaining dominance in market share, but also achieving leadership and being a role model in technologies, brand reputation and business philosophy. Hence, future research may explore the interactive and dynamic evolution of China’s internal structural change and global status.

We also claimed that state-owned ownership was not necessarily synonymous with specific firms’ performance; however, this special issue cannot provide a profound and solid foundation for understanding the association between ownership and performance in China’s special institutional setup. Nevertheless, assuming superiority for SOEs in China is problematic, and we must quest ownership-related issues with more perspectives. SOEs also can be entrepreneurial as POEs can. We, therefore, must quest the specific causality and gain insights and lessons from the cases.

In addition, this special issue did not cover adequately the cases that have been world-class like Huawei and the firms that have been ranking at the top. Recent studies of Lei and
Wu (2022) investigating the specific feature of Chinese hidden champions, and Shen et al. (2022) in this special issue, are examples in this regard. This, indeed, reflects the fact that Chinese firms might be cautious as they are not really at the top in terms of global reputation and business power in the market. Hence, researchers cannot easily access these firms until the firms gain global attention.

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References


