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CEO characteristics and corporate entrepreneurship in transition economies: Evidence from China☆

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ABSTRACT

Corporate entrepreneurship leads a path to competitive advantages for firms in transition economies such as China. To better understand how corporate entrepreneurship can be developed, we design this study to examine the importance of CEOs' institution-related characteristics, which reflect their human and relational capital, for corporate entrepreneurship in transition economies. Integrating the upper echelons and corporate entrepreneurship literature, this study proposes and tests CEOs' appointment modes, their work experience, and their network ties as antecedents of the level of corporate entrepreneurship in Chinese firms. It also examines whether the effect of CEO characteristics on corporate entrepreneurship tends to be stronger when firm-level and environmental conditions allow the CEOs greater managerial discretion. Results from a survey in 198 Chinese firms indicate that CEOs who are openly recruited and have foreign experiences are more associated with corporate entrepreneurship. Moreover, both the political focus of a CEO's network ties and his/her focus on ties outside the industry more positively relate to CE when he/she has more discretion. Our findings have both theoretical and practical implications, especially to the research on the role of corporate leaders in corporate entrepreneurship and the practices of CEO recruitment and selection.

1. Introduction

China is one of the largest emerging markets and is an important transition economy that is experiencing an institutional change from central planning to market competition (Wang & Tanaka, 2011; Xia & Walker, in press). The ongoing entry of foreign competitors after the opening-up policy and the emergence and growth of local businesses have constantly reshaped the competition landscape and resulted in substantial uncertainties that Chinese firms have to address and conquer both domestically and globally (Bao, Chen, & Zhou, 2012). Even state enterprises have to face the fact that the protection from government is decreasing and they must undertake change and learn to compete in the market (Zhang & Keh, 2010). Given the increasing competitive complexity, research has suggested that corporate entrepreneurship (CE), which is defined as the sum of a firm's innovation, venturing and strategic renewal activities (Zahra, 1996), is a new but critical practice at which firms in transition economies must become proficient (Kelley, 2011). Indeed, firms that undertake intensive levels of CE have been found to possess greater power to reconfigure their resources, shape their factor or output markets and create new and favorable market imperfections (Kuratko, 2010). These reconfigurations inside and outside a firm are posited to contribute to its competitiveness and enhance its ability to thrive and succeed in the turbulent and transitional era (Tajudin, Aziz, Mahmood, & Abdullah, 2014).

Despite its importance, the promotion of CE in transition economies has received little attention by researchers especially from a top management perspective (Dess et al., 2003). Upper-echelons research has long stressed the critical role played by top managers and particularly chief executive officers (CEOs) in firms' strategic processes and activities, such as innovation and entrepreneurship (Hambrick, 2007). However, the research has inadequately explained the issue as it relates to transition economies for two reasons (Li & Tang, 2010). First, although upper-echelons researchers have paid much attention to CEO characteristics, which signify their human capital (i.e., what they can do), much less attention has been paid to CEOs' relational capital (i.e., who they know), a factor of crucial importance in a transition economy, in particular China (Boisot & Child, 1999). Evidence (Ismail, Ford, Wu, & Peng, 2013; Peng & Luo, 2000) shows that the emergence of a transitional economy has not changed the prominent role played by guanxi in Chinese culture, which emphasizes harmony and collectivism. Resource allocation and exchange often occur on the basis of personal connections rather than on needs or competence (Boisot & Child, 1999; Xin & Pearce, 1996). Second, studies have mostly focused on CEOs' functional

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background, education background and tenure as the key indicators of their human capital (Hambrick, 2007), overlooking the possibility that the institutional factors that characterize transition economies may offer CEOs chances to develop human capital from sources that are not prevalent in developed economies.

Recognizing this void, this paper provides a more tailored understanding of the influence of CEO characteristics on CE in China, the largest transition economy and fastest-growing economy in the world (Luo, Zhou, & Liu, 2005). Drawing on the CE and managerial capital literature, we focus on three prominent CEO characteristics: appointment background, work experience and network ties. These characteristics are more institution related and expected to reflect CEOs' human and relational capital. After examining the direct influence of these characteristics on CE, we consider the CEOs' work context to improve the accuracy of our findings. We argue that CEOs do not always have a significant influence on firms, and that the influence of their characteristics on CE is subject to the effect of the managerial discretion that firm-level and environmental conditions confer to them. We also test hypotheses using data from a multisource survey of 198 Chinese firms.

2. Theoretical background and hypotheses

2.1. CEOs and corporate entrepreneurship in China

CEOs' influence in China is more salient compared with that in developed economies (Lin, 2001). Many firms in China subscribe to heritage systems held over from the previous planned economy that encourage them to treat boards of directors as unnecessary and to consider CEOs as the foremost agents of charge. Even if boards are introduced, they are typically chaired by CEOs (Peng, Zhang, & Li, 2007). The monitoring of boards in China is constrained due to the lack of independence of board members, who often have personal relationship with the firm's top managers (Bai, Liu, Lu, Song, & Zhang, 2004; Tian & Lau, 2001). CEO duality and weak functioning of boards collectively help CEOs to retain concentrated power, allowing them an exceptionally prominent role in shaping their firms' strategies and development (Lin, 2001). Market and legal institutions in China remain underdeveloped due to their short history, and inadequate financial management practices decrease firms' disclosures. The information asymmetry between insiders and outsiders helps to free CEOs from public oversight and in turn further reinforces their power (Khanna & Palepu, 2000). Considering the unique and important role they play, CEOs in China are likely to have a significant influence on an important type of firm activity: CE.

CE requires changes in a firm's resource deployment or combinations (Guth & Ginsberg, 1990). From an organizational learning perspective, some researchers (e.g., Hayton & Kelley, 2006) have stressed that CE demands both human and relational capital from firm leaders. For the former, it is important that CEOs possess knowledge and experience that help firms to identify opportunities, and it is equally important that they have the desire to take risks and make changes that spur innovative initiatives (Dess et al., 2003). For the latter, CEOs must possess connections that help their firms gain access to resources that are crucial for entrepreneurial endeavors (Dalziel, Gentry, & Bowerman, 2011). Managerial capital research has suggested that work experience is a good indicator of one's human/relational capital because everyone learns from their past experiences (Beal & Yasai-Ardekani, 2000). Following this logic, we chose CEOs' appointment background, work experience and network ties as our research focus, as these characteristics are more related to China's institutional factors and are likely to contribute to CEOs' human and relational capital in a way that supplements the other characteristics typically investigated by upper-echelons researchers (e.g., tenure, education and functional background).

2.2. CEO appointment background and corporate entrepreneurship

In the Chinese context, appointment background describes the criteria on which CEO appointments are based. This background is expected to shape the managerial expertise and skills (human capital) that a CEO can contribute to a firm (Dalziel et al., 2011). Despite Chinese firms' increasing control over executive recruitment, the state continues to control top-level staffing in firms owned by the state or other entities (Li & Tang, 2010). As a result, CEOs with the knowledge, experience and desire (human capital) required to facilitate CE are not always controlled by their firms. The state's assignment system was developed to ensure government control of important firms and their compliance with government policy.

Therefore, CEOs deployed by the state are usually chosen based on personal relationships and the trust of government administrators without an open recruiting process (Li & Tang, 2010). However, these assignees may not be the best candidates available for their positions. Many may lack sufficient business management training or experience. More specifically, they may not have the research and managerial skills required to identify entrepreneurial opportunities. This human capital limitation is expected to impede a firm's pursuit of risky, growth-oriented initiatives such as innovation, ventures and strategic renewal (Ling, Simsek, Lubatkin, & Veiga, 2008a). Research has found that firms with politically appointed CEOs or CEOs chosen by a government authority based on guanxi financially underperform firms led by openly recruited CEOs (Fan, Wong, & Zhang, 2007).

Deployed CEOs may also have less of a desire to undertake product innovation or strategic renewal. Because of their government deployment background and their good relationships with the relevant authorities, deployed CEOs are likely to consider their positions secure. Further, they are likely to focus more on maintaining relationships that have benefited or will benefit them, rather than on the growth of their firms (Lin, Cai, & Li, 1998). In contrast, a CEO selected from within or outside a firm based on open competence-based competition did not rely on guanxi to obtain his/her position and does not have the benefit of relationship protection if the firm fails to perform well. Because he/she was openly selected based on competence, he/she may feel more pressure to demonstrate an ability to justify the appointment. CEOs recruited out of open competence-based competition are therefore expected to have a stronger motivation to efficiently allocate resources to support strategic change and to restructure their businesses to capture entrepreneurial opportunities. As such, we make the following hypothesis.

H1. Chinese firms whose CEOs were openly recruited experience higher levels of CE than those with CEOs deployed by the government.

2.3. CEO work experience and corporate entrepreneurship

Work experience shapes a CEO's managerial expertise and skills (human capital) (Dalziel et al., 2011). In China, privatization and enhanced market competition have increased the need for managerial expertise (Child & Markoczy, 1993). However, due to decades of central planning, Chinese managers may have excellent educational attainments but relatively little entrepreneurial knowledge or skill (Smallbone & Welter, 2006). Due to society's general scarcity of knowledge related to market competition and innovation management, managers' experience of working at foreign companies has become a precious managerial resource (Li & Tang, 2010). Previous studies have indicated that learning from Western companies is an important way for Chinese managers to accumulate market knowledge and contemporary managerial skills (i.e., human capital) that improve a firm's CE (Li & Zhang, 2007).

Chinese CEOs who have worked in foreign firms are exposed more often to modern, competition-based strategic decision making. This is likely to provide them with knowledge related to innovation