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How Network Strategies and Institutional Transitions Evolve in Asia

MIKE W. PENG mikepeng@utdallas.edu
Provost's Distinguished Professor of Global Strategy, University of Texas at Dallas, School of Management, Box 830688, SM 43, Richardson, TX 75083, USA

JESSIE QI ZHOU zhou.148@osu.edu
The Ohio State University, Fisher College of Business, 2100 Neil Avenue, Columbus, OH 43210, USA

Abstract. This article contributes to the literature on network strategies and institutional transitions in emerging economies in Asia by identifying a realistic, intermediate phase between the early and late phases of institutional transitions suggested by Peng (2003). Focusing on the intermediate phase, we advance two arguments based on network strength and network content. First, in terms of network *strength*, we leverage earlier insights that networks can be classified as strong ties and weak ties. Consequently, we suggest that as institutional transitions unfold, strong-tie-based networks, instead of being phased out, are being transformed into weak-ties-based networks. Second, from a network *content* standpoint, we argue that the various scale and scope of institutional transitions shape the content of different networks which focus on business-to-government (B2G) ties and business-to-business (B2B) relationships. Our propositions delineate how different transitions of political and legal institutions affect the evolution of B2G and B2B networks. Overall, we suggest that networks not only differ in strength but also in content, and that their evolution is driven by the impact of different dimensions of institutional transitions governing B2G and B2B relationships.

Keywords: network strategies, institutional transitions, evolution, Asia

One of the leading themes in strategy research on emerging economies in general (Hoskisson, Eden, Lau, & Wright, 2000; Wright, Filatotchev, Hoskisson, & Peng, 2005) and in Asia[1] in particular is a focus on network strategies (Boisot & Child, 1996; Fisman, 2001; Khanna & Palepu, 2000; Li & Zhou, 2004; Park & Luo, 2001; Peng & Heath, 1996; Peng & Luo, 2000; Tsang, 1998; Wu & Leung, 2004; Xin & Pearce, 1996; Yao, Wang, & Tang, 2004). Another important body of the literature has examined the institutional conditions in these economies, which shape the relative costs and benefits of firms' strategic choices (Carney & Gedajlovic, 2002; Child & Lu, 1996; Peng, 2000, 2003). However, network strategies are not static, nor are institutions. "Although institutions serve both to powerfully drive change and to shape the nature of change across levels and contexts, they also themselves change in character and potency over time" (Dacin, Goodstein, & Scott, 2002: 45; Djelic & Quack, 2003). In fact, one of the leading features permeating emerging economies is institutional transitions, defined as "fundamental and comprehensive changes introduced to the formal and informal rules of the game that affect organizations as players" (Peng, 2003: 275). We may argue that the only constant in emerging economies in Asia is change. Therefore, the next logical step is to

address the key question: How do network strategies *evolve* with institutional transitions in Asia?

Thus far, relatively little effort has been made in integrating the two streams of research on network strategies and institutional transitions by addressing this important, but largely unexplored question. One notable exception is Peng (2003). He presents a two-phase theoretical model of the evolution from network-centered strategies during the early phase to market-centered strategies during a late phase in response to institutional transitions. While this model is insightful, for three reasons, the suggested evolutionary pattern between network strategies and institutional transitions may be too simplistic (Carney, 2004a: 181–182). First, it is arguable whether the proposed rule-based, impersonal exchange, which implies relatively little (or no) utilization of network ties at all, is realistic, given the widely documented relational embeddedness in many Asian cultures. Second, there is also a large amount of evidence in developed economies on the embeddedness of strategic networks (Granovetter, 1985; Burt, 1992; Gulati, 1995; Powell, 1990). Third, while we agree with Peng's (2003) argument that institutional transitions shape the evolution of network strategies, we believe that his model has failed to capitalize on the *heterogeneity* of both network strategies and institutional transitions. Peng's (2003) coarse-grained institutional transition framework may be too general to understand the dynamic process of network strategy transformation. Institutional factors have many dimensions (North, 2000), which are closely connected (Whitley, 1994) and may change at different speeds (Hoskisson et al., 2000; Wright et al., 2005). In other words, given the tremendous diversity of institutions, what specific dimensions of institutional transitions would trigger certain changes in network strategies?

These three points of departure thus motivate the present article, in which we seek to extend Peng's (2003) work by advancing two arguments based on network strength and network content. First, we add a more realistic, *intermediate* phase between Peng's early and late phases of institutional transitions. Although Peng (2003) never makes the argument that network strategies will disappear during the late phase of transitions, his emphasis on "market-centered strategies" during this phase does leave an impression that network strategies are no longer a centrally important strategic choice. We argue that at least during the more realistic, intermediate phase, while certain network strategies are indeed less important, other network strategies may become more crucial. Specifically, in terms of network *strength*, we leverage earlier insights that networks can be classified as strong ties and weak ties (Granovetter, 1973) to suggest that weak-tie strategies, instead of no-tie (rule-based) strategies, will be dominant during an intermediate phase of institutional transitions. In other words, while strong-tie strategies dominate strategic choices during Peng's (2003) network-intensive, early phase of transitions, many of these strong ties, instead of being phased out, may be transformed into weak ties. Second, from a network *content* standpoint, we argue that the various dimensions of institutional transitions—political and legal—shape the content of different networks which focus on business-to-government (B2G) ties and business-to-business (B2B) relationships. Overall, we suggest that business networks in Asia not only differ in strength but also in content, and that their evolution is driven by the impact of different dimensions of institutional transitions.

The strategic transformation in network *strength*

Peng (2003) has proposed a two-phase model of the dynamic fit between institutions and strategies in emerging economies. Specifically, during an early phase of institutional transitions, when formal rules supportive of market systems have not been well established, firms' strategic choices will be network-centered, heavily relying on the strong personal ties (see also Peng & Heath, 1996). However, the relative benefits and costs of network strategies will shift with the development of market-oriented institutional frameworks. During a late stage, with more mature formal rules in place, the costs of network strategies may gradually outweigh their benefits, while the benefits of market-centered strategies (featuring rule-based, impersonal exchange) gradually exceed their costs. Consequently, firms' strategic choices will shift toward more market-centered strategies (see also Peng, Lee, & Wang, 2005).

While this two-phase model of institutional transitions is insightful, the late phase characterized by impersonal, rule-based market strategies seems to leave readers with the impression that in this phase, pure, arm's-length exchanges will be pervasive and little (or no) ties or networks are needed. However, extensive research suggests that firms in developed economies are still permeated by numerous relationship networks, some of which may drive their strategies and performance (Granovetter, 1973; Gulati, 1995; Rowley, Behrens, & Krackhardt, 2000). These networks feature a combination of deeply embedded strong ties and loosely affiliated weak ties (Uzzi, 1996). Recent work in developed economies also finds that sparse, weak ties are more likely to help firms facilitate their growth (Hite & Hesterly, 2001), explore new opportunities (Rowley et al., 2000), and reach market success (Mizruchi & Stearns, 2001). Thus, we argue that as institutional transitions unfold, it seems more realistic to expect firms' strong-tie-based network strategies to transform toward weak-tie-based network strategies, rather than no-tie, pure competitive strategies as implied by Peng (2003).

The weak-tie-versus-strong-tie typology was first advocated by Granovetter (1973). The strength of the ties can be measured by "a combination of the amount of time, the emotional intensity, the intimacy (mutual confiding), and reciprocal services" (Granovetter, 1973: 1361). Strong ties provide individuals and organizations with two advantages. First, strong ties are associated with the exchange of finer-grained, higher-quality information and tacit knowledge (Powell, 1990). Second, although interpersonal and interfirm networks may be fraught with potential opportunism, strong ties serve as an informal alternative to formal contracts to lower the risk of opportunism by providing a trust-based, social control mechanism (Granovetter, 1985). The strong-tie-based relationships with both business partners and government officials are more pervasive in Asian countries such as China, Indonesia, and South Korea, due to both institutional voids and cultural heritages (Ahlstrom, Bruton, & Liu, 2000; Hamilton & Biggart, 1988; Khanna & Palepu, 2000; Peng & Luo, 2000; Xin & Pearce, 1996).

Defined as relationships characterized by infrequent interaction and low intimacy (Granovetter, 1973), weak ties, paradoxically, are more wide-ranging, less redundant, and thus better able to bridge what Burt (1992) calls "structural holes." Weak ties enjoy two advantages. First, weak ties are less costly to maintain, requiring less time, energy, and money (Hansen, 1998). Second and more importantly, weak ties excel at connecting with distant

others possessing unique and novel information for entrepreneurial actions (Granovetter, 1973). "The broader an actor's network connections, the more likely the actor will be to identify suitable potential exchange partners" (Rangan, 2000: 823). In other words, individuals and organizations that occupy key positions in more sparsely connected networks, such as multi-partner strategic alliance constellations (as opposed to two-partner alliances, which tend to be strong ties), may have the greatest chances for success (Das & Teng, 2002). This may be especially critical as individuals and organizations search for new knowledge that can facilitate the absorption, transfer, and exchange of cutting edge technologies and practices. As a result, individuals and organizations must move beyond their close, cohesive, strong ties if they aspire for long-term success (Burt, 2000).

In this debate, both the proponents of strong ties (Coleman, 1990) and those of weak ties (Burt, 1992) refer to the social capital embedded in networks (Adler & Kwan, 2002; Burt, 2000; Koka & Prescott, 2002). They agree that actors who are better connected have a competitive advantage over poorly connected actors. What they disagree is what means to be "better connected." Consequently, Rowley et al. (2000: 383) argue that "both strong and weak ties are beneficial to firms, but under different conditions—for different purposes and at different times" (see also Hite & Hesterly, 2001). In other words, while a firm is likely to simultaneously have a combination of strong ties and weak ties, it is likely to benefit from one type of ties more than the other type during a given point in time depending on the conditions surrounding the firm. The question is: What are these conditions?

One interesting typology to understand these conditions is March's (1991) distinction between "exploitation" and "exploration." Exploitation includes "such things as refinement, choice, production, efficiency, selection, implementation, and execution," whereas exploration includes "things captured by terms such as search, variation, risk taking, experimentation, play, flexibility, discovery, and innovation" (March, 1991: 71).

Integrating March's (1991) typology of "exploitation versus exploration" and Peng's (2003) notion of "early versus late phases" of institutional transitions, we argue that during the early phase of institutional transitions, network assets are typically utilized to *exploit* existing resources. Most of these networks tend to be strong ties, cultivated over a long period of dense interaction with a smaller group of government officials, managers, and entrepreneurs (Ahlstrom et al., 2000; Peng & Health, 1996). As institutional transitions progress, especially when these transitions advance to an intermediate phase characterized by the necessity to gradually compete on market-based capabilities (Peng, 2003), strong ties may be increasingly less likely to provide the range of resources needed to support firm growth (Gargiulo & Benassi, 2000; Steensma, Tihanyi, Lyles, & Dhanaraj, 2005). Since firms increasingly need to *explore* new ways of doing business (March, 1991), they often seek out and develop a broader base of new ties that have the potential to provide more needed resources and opportunities (Madhavan, Koka, & Prescott, 1998; Rowley et al., 2000), and these new ties are likely to be weak ties (Hansen, 1998; Hite & Hesterly, 2001). Therefore:

Proposition 1: With institutional transitions progressing toward market systems, firms' strong-tie-based networks will gradually evolve into weak-tie-based networks.

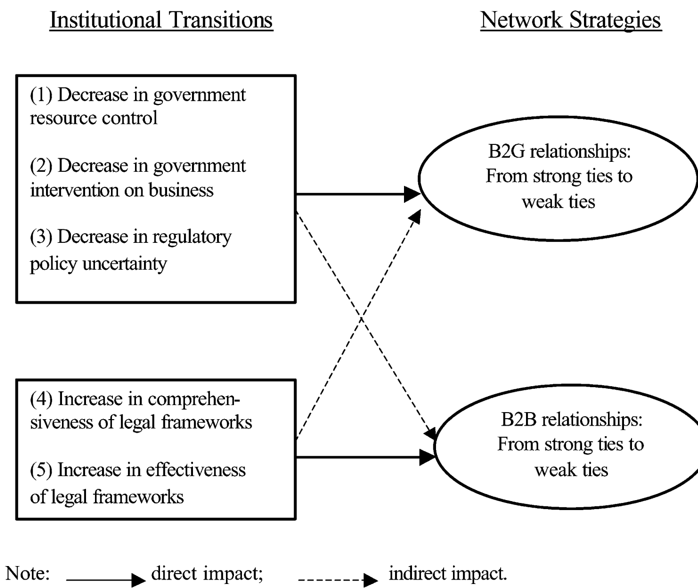

Figure 1. The evolution of network strategies in response to institutional transitions.

The strategic transformation in network *content*

Among various shapes and forms of network strategies in emerging economies, the differences in their content can be classified primarily as (1) business-to-government relationships (B2G) and (2) business-to-business relationships (B2B). The rationale for building B2G network ties with central or local government officials are likely to be different from that for building B2B network ties with suppliers, retailers, and competitors (Peng & Luo, 2000).

Institutional factors affecting B2G and B2B networks have many dimensions, such as the voids of formal institutional rules (Khanna & Palepu, 2000), personalized bureaucratic administrations (Boisot & Child, 1996), government control over resources (Child & Lu, 1996), and government intervention in firms' operations (Ahlstrom et al., 2000). In an Asian context, Delios and Singh (2005: 88) argue that such institutions can be classified parsimoniously in two dimensions: (1) political institutions and (2) legal institutions. In the next two sections, we develop arguments on how these two dimensions of institutional transitions affect the evolution of B2G and B2B networks from strong-tie-based to weak-tie-based (see Figure 1 for a summary).

Transitions of political institutions

During institutional transitions, political institutions primarily affect B2G relationships and secondarily affect B2B relationships (Delios & Singh, 2005). Three underlying sources

are considered to be most influential: (1) The level of scarce resources that governments control, (2) the level of government intervention in business decisions and operations, and (3) the level of regulatory policy uncertainty.

The level of resources controlled by governments directly affects the extent of firms' resource dependence on governments. Accessing valuable resources is one of the most important benefits of network strategies in emerging economies. The monopoly control of governments over scarce resources in some countries, such as land, raw materials, capital, licensing for business entry, subsidies and tax arrears, may cause great resource dependence of firms on government (Child & Lu, 1996). This resource dependence naturally triggers the necessity and enhances the benefits for strong and good relationships with government officials (Fisman, 2001; Xin & Pearce, 1996). Further, the exchange nature of this kind of B2G relationship often leads to corruption and bribery. One example is the "Suharto dependency index" measured by Fisman (2001), who finds that the closer a firm's relationship with the then Indonesian president Suharto (prior to his departure from power in 1998), the worse its stock would perform when rumors about Suharto's deteriorating health got worse.

However, with the progress of the privatization process in most emerging economies, the resources controlled or redistributed by governments, especially those in formerly planned economies, are diminishing gradually (Pistor, Raiser, & Gelfer, 2000). In addition, the gradual development of external factor markets, such as commercial banking systems and securities markets in emerging economies, have decreased firms' resource dependence on governments (Kim, Hoskisson, Tihanyi, & Hong, 2004). In other words, with the decrease of resource level that a government could control, the return for firms' strong ties with governments may gradually diminish. But maintaining some weak ties with government officials will still be desirable (Hillman, Keim, & Schuler, 2004). Therefore:

Proposition 2: The decrease in the level of resources controlled by governments has a positive effect on the transformation of B2G networks from strong-tie-based to weak-tie-based.

The level of government intervention on business decisions and operations also affects B2G networks. One common feature among many emerging economies is the extensive government involvement in firms' operational decisions including prices, investment, employment, wages, sales or other business operations (Child & Lu, 1996; Hellman & Schankerman, 2000). However, economic liberalization and privatization in the past decade have dramatically decreased state intervention to firms in most emerging economies, the formal strong connections between business firms and government are weakening gradually, which give firms more autonomy of business decision making (Child & Tse, 2001; Hellman & Schankerman, 2000; Maheshwari & Ahlstrom, 2004; O'Neill, Rondinelli, & Wattanakul, 2004). However, in most emerging economies, governments still maintain some influence over firms by leveraging subsidies, regulatory favors, and tax arrears (Pistor et al., 2000). Some countries such as China, Indonesia, and Russia simply shift their intervention from central to local governments. Therefore, some weak B2G ties with governments

may continue to be advantageous to obtain timely information and access favorable opportunities.

Proposition 3: The decrease in the scale and scope of government intervention on business has a positive effect on the transformation of B2G networks from strong-tie-based to weak-tie-based.

Regulatory policy uncertainty also affects B2G networks. In many emerging economies, business regulations are usually not well codified (Boisot & Child, 1996), thus difficult to predict. They may be very complex, inconsistent, and often subject to constant changes, hence too unstable for long-term business planning (Doh & Pearce, 2004; Gupta & Wang, 2004). Facing such tremendous uncertainty, it makes sense for firms to form strong B2G relationships to governments to reduce uncertainty. This is especially true to those private firms in emerging economies such as China with ambiguous property rights, whose business operations are often plagued by various levels of government officials (Ahlstrom et al., 2000; Xin & Peace, 1996). Accessing policy information on a timely basis and keep business operations from regulatory risk largely depend on the in-depth relationships with government officials. When government regulatory policies become more stable and transparent, the need and benefit for this sort of strong ties to governments will also decrease. But this does not mean that ties to governments will be of no value any more. Even in such developed economies as the United States, weak ties to governments could help firms stay informed about regulations and help firms influence public policy making (Hillman et al., 2004). Therefore:

Proposition 4: The decrease in regulatory policy uncertainty has a positive effect on the transformation of B2G networks from strong-tie-based to weak-tie-based.

In addition, the changes introduced to the political institutions also affect B2B networks—albeit more indirectly. During the early phase of institutional transitions, while firms have many motivations to establish strong-tie-based B2B networks, one of such motivations is to cultivate strong ties with a small number of firms which have good B2G ties in order to *exploit* such connections (Peng & Heath, 1996). However, during the intermediate phase of institutional transitions, this motivation becomes less compelling when governments reduce their control of resources and curtail their scope of intervention and when regulatory policy uncertainty is reduced. In other words, the need for firms to "band together" through strong B2B ties in their dealings with governments is reduced. Firms, therefore, may be more interested in establishing weak ties with a more diverse set of other organizations in order to *explore* new opportunities (March, 1991). Overall:

Proposition 5: (1) The decrease in the level of resources controlled by governments, (2) the decrease in the scale and scope of government intervention, and (3) the decrease in regulatory policy uncertainty has a positive effect on the transformation of B2B networks from strong-tie-based to weak-tie-based.

Transitions of legal institutions

Transitions of legal institutions also affect B2B and B2G networks. The two key dimensions of legal institutions are (1) the extensiveness of legal frameworks governing business transactions and (2) the effectiveness of such frameworks (primarily enforcement of business laws).

The lack of formal legal and regulatory frameworks—known as "institutional voids" (Khanna & Palepu, 2000)—has been greatly attributed to the extensive use of relational contracts (Peng & Heath, 1996), the pervasive adoption of family business groups (Carney & Gedajlovic, 2002) and crony capitalism in Asia (Bruton, Ahlstrom, & Wan, 2001). The transitions from central planning to market orientation involve extensive legislative processes to lay down the framework of formal legal and regulatory frameworks. The extensiveness and effectiveness of the formal rules are essential to determine the relative transaction costs of relational contracts vis-a-vis legal contracts. They are inextricably connected: the effectiveness of law cannot be substituted by the poor laws on the book, and well-codified laws cannot substitute for effective enforcement (Pistor et al., 2000).

The costs of arm's-length transactions between firms are largely determined by the legal infrastructure, such as commercial law, corporate law, and contract law (Peng, 2003). In emerging economies, such infrastructure usually is not well established and under constant change. A weak legal system favors strong personal ties and relational contracting as viable substitutes for formal legal contracts, which may restrict business opportunities and weaken competition. The difficulty of turnaround after the Asia financial crisis clearly demonstrates the negative side of over-embeddedness of relational or family ties (Ahlstrom & Bruton, 2004; White, 2004). Without these formal legal frameworks governing the business transactions, the moral hazard of opportunism will be considerably high (Peng & Heath, 1996). Thus, firms have to rely on informal personal ties extensively in market transactions to reduce uncertainty and combat opportunism. Strong personal ties between firms not only provide trust and predictability—and consequently low transaction costs—but also facilitate cooperation when facing environmental change. However, strong ties take time and effort to build and are often constrained with limited size that one person or firm could manage (Tsang, 1998), thus reducing the potential transaction opportunities with other firms. The development of legal frameworks that regulate the business transaction enables firms to step out of the limited strong-tie transactions and move to weak-tie-based, arm's-length transactions. Weak ties between firms could provide much more heterogeneous information and business opportunities than strong ties, which are critical sources of market competition (Gulati, 1995; Uzzi, 1996; Hansen, 1998; Hite & Hesterly, 2001). Therefore:

Proposition 6: The increase in the comprehensiveness of legal frameworks governing business transactions has a positive effect on the transformation of B2B networks from strong-tie-based to weak-tie-based.

The mere existence of legal frameworks will not guarantee effective enforcement. A predictable transaction environment also requires the strong enforcement of business laws (Amsden, Kochanowicz, & Taylor, 1994; Pistor et al., 2000). Cross-country comparisons

demonstrate much greater variations in the effectiveness of laws than in the laws on the books. For example, after the 1997 Asian economic crisis, several Asian economies adopted Anglo-American-style corporate governance legal frameworks. However, these countries often suffer from a serious "transplant effect:" it is difficult to enforce these transplanted (imported) laws in indigenous business environments because people in those countries are not familiar with such "foreign" laws (Ahlstrom & Bruton, 2004; Carney, 2004a; White, 2004). In other words, the comprehensiveness of business laws itself is a necessary but not sufficient condition for the transformation of B2B networks from strong-tie-based to weak-tie-based. As long as the enforcement of business laws is unpredictable or under government officials' personal discretion (Ahlstrom et al., 2000), firms will find it optimal to rely on strong personal ties and relational contracts rather than legal contracts.

Johnson, McMillan, and Woodruff (2002) find that the effectiveness of courts has a significant positive effect on the level of trust in relationships between business partners. The assurance of the effective third-party enforcement can also reduce transaction costs for firms doing business with strangers, which is vital for firms to access diverse information and pursue new opportunities. Specifically, "well-functioning courts encourage entrepreneurs to try out new suppliers . . . and help new interactions to start and develop" (Johnson et al., 2002: 221). In other words, in emerging economies, effective law enforcement, such as the existence of well-functioning courts, reduces the necessity of strong-tie-based transactions between firms, and facilitates the development of weak-tie-based relationships. This is consistent with empirical work in developed economies which finds that sparse, weak ties are more likely to help firms explore new opportunities and reach market success (Mizruchi & Stearns, 2001; Rowley et al., 2000). Thus:

Proposition 7: The increase in the effectiveness of legal frameworks governing business transactions has a positive effect on the transforation of B2B networks from strong-tie-based to weak-tie-based.

Transitions of legal institutions not only affect the evolution of B2B networks, but also the transformation of B2G networks—albeit indirectly. In many emerging economies, the emergence of effective legal frameworks often goes hand-in-hand with the decrease in government control of resources, the reduction of arbitrary government intervention, and the increase of regulatory policy certainty discussed earlier. In other words, the "rule of man" is likely to be gradually (although not completely) replaced by the "rule of law." Therefore, for the same reason that the less extensive "rule of man" may facilitate the transformation of B2G networks from strong-tie-based to weak-tie-based (see Propositions 2–5), the increasingly comprehensive and effective legal frameworks may also prompt the gradual evolution of B2G networks toward a similar direction (Peng et al., 2005). Thus:

Proposition 8: The increase in the (1) comprehensiveness and (2) effectiveness of legal frameworks governing business transactions has a positive effect on the transformation of B2G networks from strong-tie-based to weak-tie-based.

Discussion

Research contributions and implications

Given the paucity of previous work on the evolutionary process between network strategies and institutions, initial research on emerging economies seems to have been relatively simplistic by spelling out one-step institutional changes and simple classification of coarse-grained network strategies (e.g., Peng & Heath, 1996). This article contributes to the literature by advancing a more realistic and finer-grained framework that emphasizes a possible intermediate weak-tie phase between the early and late phases of institutional transitions suggested by Peng (2003).

Institutions have multiple dimensions such as political, legal, and economic factors. They are closely connected and mutually reinforcing (Whitley, 1994). Therefore, institutional transitions may manifest diverse patterns due to different dimensional changes at different speeds. We decompose the crucial institutions throughout emerging economies in Asia as political institutions and legal institutions. Further, we argue that different paces of institutional transitions on these two dimensions will lead to heterogeneous evolution of network strategies in terms of both network content (B2G versus B2B) and strength (strong ties versus weak ties).

In addition, this article also helps integrate research on network strategies in emerging economies with work on developed economies. For a long time, the persistence of network strategies in emerging economies is regarded by some commentators as a sign of backwardness and weakness and firms are often advised to abandon their "backward" networks. However, as North (1990:39) suggests, "formal rules, in even the most developed economy, make up a small (although very important) part of the sum of constraints that shape strategic choices," and "informal constraints are pervasive features of modern economies." We argue that, the difference between firms in developed and emerging economies is not that one set (in developed economies) do not employ network strategies, and that the other set (in emerging economies) only use network strategies. For example, while studies in China find that connections with government officials have a positive impact on firm performance (Park & Luo, 2001; Peng & Luo, 2000), research in the United States reports similar findings in terms of the benefits of knowing people in "high places" (Hillman et al., 2004). A more sensible understanding focuses on what types of networks firms possess under different institutional configurations. Historically, firms in emerging economies may have a higher propensity of relying on strong ties, whereas their counterparts in developed economies feature a greater balance between strong ties and weak ties. Supported by more established formal institutions, weak-tie networks in developed economies may be more calculative, with better codification and transparency (Hite & Hesterly, 2001). Instead of substituting for market competitiveness, these networks are likely to complement firms' competitive capabilities.

Limitations and future directions

Despite the potential contributions, the theoretical model developed in this article also presents several limitations, which suggest at least five future directions. First, although

we have developed a more complex and more realistic model of institutional and network evolution by specifying a possible intermediate phase between Peng's (2003) two simple phases, our model is also based on the same assumption that emerging economies will eventually converge with developed economies. This assumption is of course debatable (Carney, 2004b; Djelic & Quack, 2003). For example, Whitley (1999) argues that societies with different institutional arrangements will continue to develop and reproduce various businesses with distinctive advantages in particular industries and sectors. Variance in business systems results from the variance of institutions—political, financial, education, and labor. While the convergence-divergence debate is not our focus here, it is important to note that the frontier of theory development about institutional change has probably moved beyond the simple and narrow dichotomy of convergence and divergence (Dacin et al., 2002). There is growing recognition that processes of institutional change are more complex and nuanced than implied in our framework, thus calling for future work to capture some of the nuances. In addition, we also fully recognize that the convergence paths may often be interrupted by unpredictable and erratic setbacks, and given these uncertainties, the strategic shift from strong-tie-based to weak-tie-based strategies may exhibit an enormous time lag in those emerging economies (Carney, 2004a).

Second, more needs to be said about the feedback loop and the nature of reciprocal interdependencies—that is, how do institutions and networks *co-evolve*? In particular, our theoretical framework sheds little light on how network strategy evolution affects institutional transitions. In the institutional economics literature, institutional development is viewed either from Hayek's (1973) spontaneous order (the unplanned consequences of human action) or from Commons' (1934) conscious design (the conscious collective governmental action). Applying these theories to network strategies and institutional transitions, we speculate that with an increasing number of firms changing the strength and content of their network strategies, the normative and cognitive pillar of institutions about the legitimacy of strong-tie-based strategies will decrease and the legitimacy of weak-tie-based strategies will increase overtime—this is the spontaneous order aspect of institutional development. Regarding the conscious design aspect of institutional development, we speculate that while firms are influenced by institutional frameworks and their transitions, at least some firms may have both the motivation and capacity to shape the outcome of some of the transitions in political and legal institutions (e.g., through legitimate lobbying or illegal bribery), thus changing the regulative pillar of institutions that affect network strategies. These important dynamics are relatively unknown at present and remain to be explored in future work (e.g., Carney & Gedajlovic, 2002).

Third, as in Peng (2003), the question of where the points of inflection are for institutional and strategic transformation remains unclear in this model. We speculate that it is more of a continuous period with a gradual shift rather than of a fixed threshold across countries. A comparative study in the future might be quite viable to test this model empirically by examining different network strategies among Asian and other emerging economies with the different levels and speeds of institutional progress (see Zhou & Peng, 2005 for an early attempt).

Fourth, future research needs to identify other important dimensions of institutional transitions. While we have focused on the formal political and legal institutions, obviously,

a number of informal, normative, and cognitive institutions also affect strategic choices. Correspondingly, the complexity of firms' network strategies in response to the multiplicity of institutional dimensions beyond our relatively simplistic two dimensions may be worthy of further investigation.

Finally, our propositions are silent about the heterogeneity of firm level characters that may affect the evolution of firm strategies. Given the wide diversity of various Asian firms and networks (Biggart & Delbridge, 2004; Carney, 2004b), it is not plausible to suggest that all Asian firms and their networks are strong-tie-based during the early phase of institutional transitions, and that all such ties will transform to weak-tie-based during the intermediate phase. For example, the literature on subcontract networks suggests that many of these networks in Taiwan seem to be weak-tie-based to start with (Shieh, 1992). We also speculate that different industries may have different relative cost-benefit analyses of strong-tie-based strategies versus weak-tie-based strategies. For example, in industries with more stable demand and less competitive pressure (e.g., railways), the transitions from strong ties to weak ties may be slower than in those more uncertain and competitive industries (e.g., information technology). Similarly, firms with different levels of embeddedness (e.g., entrepreneurial firms versus incumbent firms) may differ in their tendency in adopting strong ties versus weak ties (Peng, 2003). While our framework aims to capture the central tendency of strategic choices during the intermediate phase and does not proclaim to be able to capture all networking behavior, future work needs to reconcile the differences between our conceptual framework, which is admittedly parsimonious, and the empirical realities in may parts of Asia and elsewhere.

Practical implications

Many policymakers in emerging economies are concerned with strong-tie networks, some of which are associated with collusion, corruption, cronyism, and other unethical problems. While not all strong ties share these problems, these problems are not surprising, since preferential treatments provided to members of strong-tie networks are generally built on the foundation of differential, opportunistic, and sometimes discriminatory treatments of non-members (Chen, Peng, & Saparito, 2002). While many governments attempt to "break" these networks and force firms to engage in market-based, arm's-length transactions, especially after the Asian financial crisis (Kim et al., 2004; Carney, 2004a), they have not been very successful. This article suggests that in the absence of formal, market-oriented institutions defining both B2G and B2B relationships, it is not realistic for firms to rely on markets to govern transactions (Biggart & Delbridge, 2004). It is perhaps more realistic for governments, through market-oriented institution building in the two institutional dimensions, to facilitate the transformation from strong ties to weak ties for both B2G and B2B networks, as opposed to having no ties.

Practitioners navigating the transition process are essentially competing on the "edge," between the urge to tap into existing strong ties and the need to develop new weak ties to either government officials or business partners. Different firms, even those in the same industry and same country, may seek different combinations of network benefits (e.g., information volume, diversity, and richness), thus leading to different strategic choices in

the design and development of firms' network assets (Koka & Prescott, 2002; Steensma et al., 2005). An adaptive network strategy design seems to require sensitive responses to the dimensions and paces of institutional change. Any strategic move which precedes or lags the ongoing institutional development may harm a firm. There is evidence suggesting that sticking to the old strategies in different environments may lead to poor performance (Audia, Locke, & Smith, 2000). Therefore, firms failing to realize the passing of their time are likely to fall behind or even go out of business.

Conclusion

Research on network strategies during institutional transitions in emerging economies in Asia is central to understanding how a firm's social capital embedded in network assets can be translated into competitive advantage. This article contributes to the literature on network strategies and institutional transitions in emerging economies in Asia by identifying a realistic, intermediate phase between the early and late phases of institutional transitions suggested by Peng (2003). Overall, we suggest that networks not only differ in strength but also in content, and that their evolution is driven by the impact of different dimensions of institutional transitions governing B2G and B2B relationships. Theoretically, such work enables us to move beyond a static view of networks and institutions and to understand the changing contingencies giving rise to different forms of network relationships during different phases of institutional transitions. If supported empirically, this research may help us assess whether and how strategies in these rapidly changing economies in Asia and other regions converge with (or diverge from) those found in developed economies (see Zhou & Peng, 2005). Finally, knowing more about how network strategies evolve in response to different dimensions of institutional transitions will provide a firmer basis for our practical advice given to domestic practitioners and policymakers interested in enhancing the competitiveness of emerging economies and foreign entrants intrigued by the opportunities there.

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Note

1. In this article, the term "Asia" refers to "non-Japan Asia." Other than Japan, the only developed economy in the region, all other countries can be viewed as "emerging economies" (e.g., Hoskisson et al., 2000).

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Mike W. Peng (Ph.D., University of Washington) is a professor of global strategy at the University of Texas at Dallas, where he holds the university's first ever Provost's Distinguished Research Professorship. He was formerly an associate professor at the Fisher College of Business, The Ohio State University. He is the author of nearly 40 scholarly articles and three books, including, most recently, *Global Strategy* (2006). He has served on the editorial boards of *AMJ*, *AMR*, *JIBS*, and *SMJ*, and acted as a guest editor for *JIBS* and *JMS*. He is the first elected officer of the Global Strategy Interest Group at the Strategic Management Society. This is his fifth contribution to *APJM*.

Jessie Qi Zhou is a Ph.D. candidate in international business at the Fisher College of Business, The Ohio State University. Her research interest includes strategy in emerging economies, network strategy, and organizational learning. Her main theoretical interest is institutional theory, with a focus on how institutional distance affects MNE strategies. The comparative analysis of firms' strategic choices across countries in response to different institutional environments is also of particular interest to her. Her work has been presented at the Academy of Management and Academy of International Business conferences.