

Dragon in a Three-Piece Suit: The Emergence of Capitalism in China.

By DOUG GUTHRIE. Princeton, New Jersey: Princeton University Press, 1999. 320 pages. Cloth: ISBN 0-691-00492-7, price: US\$45.00; Paper: ISBN 0-691-09519-1, US\$19.95.

Dragon in a Three-Piece Suit: The Emergence of Capitalism in China is a remarkable and fascinating book. Doug Guthrie brings fresh insights into the study of organizational change and institutional transformation in China. From the perspective of economic sociology, he argues, markets do not exist in the abstract. Markets are social constructions that are shaped by the institutional, political, and cultural environments in which they are embedded. Moreover, there are multiple determinants of organizational form and strategic decision of the enterprises, but they are not reducible to purely economic variables, such as the pressures of technical environments or patterns of competition. Therefore, one must depart from market-oriented approaches by turning attention to the institutional environment, the socially constructed normative worlds where organizations exist.

Guthrie demonstrates that Chinese firms are not necessarily simply focused on competition and efficiency, but are also concerned—for reasons of social as well as economic fitness—with political power and institutional legitimacy. He describes three isomorphic mechanisms (coercive, mimetic, and normative) discussed by Paul DiMaggio and Walter Powell¹ that lead Chinese firms to adopt a Western-style structure. He finds that the emergence of Chinese firm structures is tied to the organization's position in the administrative hierarchy, the general manager's background, and whether the firm has formal relations with foreign companies. First, the historical legacy, particularly state institutions that define market structure and action, plays a fundamental role in shaping patterns of economic decision-making. The most obvious example for such formal pressure is the "modern enterprise system" that the government mandates is a rhetori-

¹Paul DiMaggio and Walter Powell, "The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields," *American Sociological Review* 48, no. 2 (1983): 147-60.

cal stand-in for Western-style management practices.

The second mechanism by which organizations become isomorphic is grounded primarily in professionalization and education. The conceptions of control that leaders bring to their organizations are often closely related to their backgrounds and training. In China, general managers are trained in similar settings and have analogous views of the types of organizational structure that should emerge in the period of economic reform. Also likely is that many of these managers are tied into common networks. In periods of uncertainty, these managers would offer the similar solutions to problems the organizations face.

Most important, Chinese organizations adopt formalized institutional practices not only in order to appear legitimate in the state's eyes but also to gain legitimacy in the eyes of foreign investors. This dynamic is at the heart of the rhetoric of "getting on track with the international community" (與國際接軌, *yu guoji jiegui*). Foreign organizational models are held up as exemplary in the Chinese economy, and Chinese organizations mimic the practices of these foreign investors. Furthermore, foreign investors negotiate with their domestic partners, pushing the Chinese side to take seriously rational-legal institutions that are present in the institutional environment from which the foreign investors come. The explanation that Guthrie develops for the convergence of Chinese organizational structure with the Western-style practices depends on these mechanisms.

In addition to these new perspectives, the title *Dragon in a Three-Piece Suit* of this book is glamorous. In 1666, King Charles II felt it necessary to reform Englishmen's dress by introducing a fashion that developed into the three-piece suit. English upper- and middle-class men in the three-piece suit understood their authority to be based in part on the display of masculine character: How they presented themselves in public and demonstrated their masculinity helped to define their political legitimacy, moral authority, and economic utility. In the same way, Guthrie demonstrates that the "modern enterprise system" is a three-piece suit in China. Traditional firms throw on the modern suit and define their political legitimacy, moral authority, and economic utility. Furthermore, this Western attire signifies the emergence of capitalism in China.

To address this question, Guthrie draws on data from a 1995 survey in which he examined the ways that eight-one firms, randomly sampled from four industrial sectors in Shanghai, are dealing with the reforms. In addition, he conducted seventy-four interviews with government officials, law scholars, and managers of organizations that were not part of the random sample. Guthrie indeed collected a great deal of data in his field work. However, the researcher has probably been misled by informants who do not always tell the "truth," especially those Chinese officials or factory managers who had experienced the Cultural Revolution. For example, he insists that the system of "self-responsibility for gains and losses" (自負盈虧, *zifu yingkuai*) reflects the hardening of budget constraints. Similarly, he discovers that the managers in the urban industrial sector are increasingly likely to distance themselves from the institution of gift economy (*guanxi* 關係 practice). In the writings of other researchers, however, the reality seems contrary to his findings. As another example, the author does not think corruption plays an important part in any of the factories. On the contrary, the big winners of the post-communist transition are communists who exercise power as experts and managers. They convert their "political capital" into "economic capital" or "social capital" in economic transition. In China, as a by-product of the decentralization process underlying enterprise reform, most control rights have ended up with state-owned enterprise (SOE) managers. That is why insider control and asset-stripping are widespread in China. In short, the reality of China's business management is different from Guthrie's interpretation.

Moreover, Guthrie emphasizes that the relationships with foreign investors not only have an impact on the structure of economic action in Chinese firms, but also create a rational-legal system in China. Because foreign businesses setting up joint ventures are investing for the long term, finding a stable investment partner that understands rational-legal business and labor practices is among foreign investors' highest priorities. The foreign-Chinese joint-venture relationship, coupled with the emergence of laws produced at the state level, has crucial consequences for labor relations, and therefore for human rights in China. Obviously, Guthrie over-values and overstretches the impact of foreign investors, especially the

discussion of public policies such as most-favored-nation (MFN) status and the debate between human rights and trade. In the opinion of this reviewer, foreign investors actually play an important part in China's development, but do not dominate institutional changes. In addition, the author fails to get rid of the "stimulus-response" model. At this point, the methodology is truly Western centralism.

Indeed, *Dragon in a Three-Piece Suit* is an innovative examination of organizational change in transforming China. The author has attempted to illuminate many hidden facets of China's reform through direct observations of decisions and practices of economic actors in the marketplace, as a way to explore the meaning of the broader political and institutional changes of economic transition. Even though there are aspects of critiques, the defects cannot obscure the merits. Guthrie's book offers us a unique opportunity to explore the path-dependent and globalization-driven nature of the transforming economy in China.

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