

INTRODUCTION TO SPECIAL TOPIC FORUM

PRIVATIZATION AND ENTREPRENEURIAL TRANSFORMATION: EMERGING ISSUES AND A FUTURE RESEARCH AGENDA

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Privatization has become a popular strategy to promote economic development in emerging, developing, and developed economies. Despite its popularity, little attention has been devoted to examination of the organizational and managerial implications of privatization or to the effect of privatization on companies' ability to innovate and engage in entrepreneurial activities. In this article we discuss privatization's increasing importance and present a model that links privatization to a firm's entrepreneurial activities. We conclude with a discussion of issues that we believe deserve scholars' attention in theory development and subsequent empirical examination.

The global economic landscape is undergoing unprecedented change that is multifaceted and wide ranging in nature (Hitt, Harrison, & Ireland, in press b; Ireland & Hitt, 1999) and that is clearly evident in the adoption of privatization as a strategy on a worldwide basis. The primary purpose of this strategic option is to promote economic development in emerging, developing, and developed economies. Emerging economies and their markets, however, are characterized by economic, social, or political instability (Hitt, Dacin, Levitas, Arregle, & Borza, in press a). There are also substantial differences in the institutional infrastructure between emerging and developed economies (Newman, this issue). Given that the idiosyncratic characteristics of an economy's structure can profoundly affect the rules of exchange in its markets (North, 1990), these differences can have a

major effect on the outcomes that countries or companies can achieve through privatization.

Following decades of experimentation with various systems of state ownership and control, many nations have adopted privatization strategies as a centerpiece of their national policies—policies that aim to promote and support social progress and economic development or to initiate economic renewal. Over \$700 billion in assets have been privatized in the world's economies in the last decade alone, approximately 40 percent of which has occurred in emerging economies (Ramamurti, this issue). Brazil is expected to privatize as much as \$80 billion in assets before its ongoing conversion of public assets to private ownership is completed (Doh, this issue). Countries using privatization strategies as a primary policy tool to induce and promote economic growth represent most of the world's regions, including Africa, Asia, Latin America, and Europe.

By placing the means of production outside of state ownership and control, privatization unleashes the forces and discipline of the free mar-

Duane Ireland was on the faculty at Baylor University while working on this special topic forum.

ket. The resulting pattern of action (i.e., privatization) and reaction (i.e., the forces of a free market economy) strongly influence the degree to which governments control their national economies (D'Souza & Megginson, 1999; Melloan, 2000). Privatization, therefore, has the potential to transform national economies, industries, and organizations by infusing a spirit of entrepreneurial risk taking. These changes are in process currently across the world's six major continents, making privatization an integral part of emerging, developing, and developed countries' twenty-first-century strategic agendas. Effective privatizations, however, where state-owned industries are privatized without creating significant unemployment and related disruptions, are difficult to achieve (Melloan, 2000). Consequently, some of the contributors in this special topic forum challenge us to proceed cautiously when forming expectations about privatization's outcomes.

When examining privatization as a change strategy, researchers are concerned with privatization's effects on the creation of wealth. To date, most privatization researchers have focused on the country as the unit of analysis, primarily examining the macroenvironmental conditions that lead to privatization (e.g., Filatotchev, Hoskisson, Buck, & Wright, 1996; Galal, Jones, Tandon, & Vogelsang, 1994; Grosse & Yanes, 1998). Researchers also have examined the factors that lead to the use of particular approaches to privatization (e.g., Miller, 1995; Minniti & Polutnik, 1999; Ramamurti, 1992). Most of this research has been grounded in economic or financial theories, leaving important organizational issues unexplored.

Further, in prior research scholars have not examined the major organizational transformations that occur following privatization. These transformations can be far reaching, possibly leading to the formation of new stakeholder groups and redefining the patterns of these stakeholders' interactions with the firm. The effects of these groups' interaction patterns on a firm may be significant, creating a need for extensive organizational and behavioral adjustments.

THE PURPOSE OF THE SPECIAL TOPIC FORUM

With this *Academy of Management Review* special topic forum, the authors seek to contribute to our understanding of the *potential* effects

of privatization on organizational transformation. Organizational transformation includes changes in organizational values, cultures, systems, and strategies. Transformation centers on how a firm is organized, governed, and managed as it adjusts to the competitive realities of a market economy. Changes in cognitive, strategic, cultural, and structural dimensions that are required to support organizational transformation may induce or expand entrepreneurial actions, calculated risk taking, and innovation. Entrepreneurial activities are important for achieving efficiency, improving productivity, and creating wealth (Baumol, 1996). These activities foster innovation that leads to the introduction of a new product, process, technology, system, technique, resource, or capability to the firm or its markets (Covin & Miles, 1999). Innovation is the foundation for competitive advantage in the new global economy (Hitt, Nixon, Hoskisson, & Kochhar, 1999). An entrepreneurial transformation, in which the firm engages in more entrepreneurial activities, risk taking, and innovation, is key to an organization's transition from what is often a state-owned status to one of competing in a market-based economy.

Even though one reason to privatize firms is to promote entrepreneurial transformation, achieving such a transformation is more difficult in an emerging economy than in a developed economy. Typically, the sparse resources and capabilities previously state-owned enterprises possess are inadequate to support an entrepreneurial transformation. As a result, newly privatized firms in emerging economies often find it necessary to seek financial, technological, and managerial resources and capabilities from more richly endowed firms (Hitt et al., in press a).

To compete successfully in a market-based economy, privatized firms also must quickly learn how to use newly acquired resources (Zahra, Ireland, & Hitt, in press). Rapidly acquiring application-oriented and learning-based skills is oftentimes facilitated by the development of cooperative arrangements, such as joint ventures and equity strategic alliances (Hitt, Ireland, & Hoskisson, in press c). Some of these alliances are formed with companies that are outside the privatized firm's domestic market. Although such international joint ventures are a challenging organizational form, the rate of their formation continues to increase (Yan, 1998).

Regardless of the mode used to acquire and apply new skills, firms find how to use modern technologies and the related skills required to engage in successful commercial activities difficult without adequate levels of absorptive capacity (Cohen & Levinthal, 1990). This capacity allows privatized firms to assimilate and exploit new knowledge. Assimilation and exploitation of new knowledge can ignite innovation in privatized firms. Developing absorptive capacity can be difficult, given that firms from developed markets have learned how to buffer their core technologies from appropriation by other firms, even those with whom they form strategic alliances. Written contracts are a formal means of preventing appropriation, whereas interactions based on trust that have evolved over time are an informal yet equally effective means of protecting a firm's intellectual property.

Recent research results highlight the importance of these capabilities. Uhlenbruck and DeCastro (in press) found that acquisitions of newly privatized firms from emerging markets by companies from developed countries enhanced the acquired firm's performance. Transferring new technologies, managerial skills, and financial resources from the acquiring to the acquired firm led to higher performance. The transfer of skills facilitates the acquired and recently privatized firms' efforts to transform into viable competitors in a market-based economy (Hitt et al., in press b).

Focusing on the organizational transformation that may follow privatization and privatization's potential effects on entrepreneurial activities, this special topic forum is designed to improve our understanding of several phenomena, including (1) the factors that serve as a catalyst for privatization in countries at different stages of their economic development; (2) different privatization strategies and their unique characteristics; (3) the effect of privatization on the process of organizational transformation, particularly in promoting firm-level entrepreneurship; and (4) the implications of organizational transformation for the effective management of privatized firms. Our goal, indeed our hope, is to highlight the importance of privatization in creating a new set of organizational dynamics that promote innovation, risk taking, proactive management, and entrepreneurship. This emphasis is based on the fact that countries, industries, and organizations that foster

entrepreneurship are well positioned to achieve technological and economic progress.

In the next section we examine the domain and importance of privatization. A model that links the antecedents and the process of privatization to entrepreneurial transformation follows this discussion. Thereafter, we review the key themes in the articles appearing in the special topic forum, highlighting their contributions. We also describe major areas for future research and challenges scholars face as they seek to build theories that are capable of effectively capturing the relationships between privatization and entrepreneurial transformation.

PRIVATIZATION: DOMAIN AND IMPORTANCE

To capture a complex phenomenon, in most definitions of privatization authors highlight the change in a firm's ownership and, as a consequence, the change in its governance and control systems (e.g., Ramamurti, 1992). Changes in firms' ownership occur in several ways (Ramamurti, this issue; Ramirez, 1998). These changes, however, typically produce a transfer of ownership of fully or partially owned public or state-owned enterprises to private parties. This transfer determines the appropriation of residual rents (profits) and the allocation of residual decision rights (ownership rights).

Ramamurti (this issue) notes that privatization can be defined in both a *narrow* and a *broad* sense. The different definitions indicate that as a process, privatization has many shapes (Doh, this issue). Viewed *broadly*, privatization is any action that increases the role of the private sector in the economy. In this broad sense, activities that would constitute privatization might include the sale of public assets, deregulation, opening state monopolies to greater competition, contracting out, the private provision of public services, joint capital projects using public and private finance, reduced subsidies, and increasing or introducing user charges (Jackson & Price, 1994).

From a *narrow* lens, privatization is any action that transfers some or all of the ownership and/or control of state-owned enterprises to the private sector. As Ramamurti (this issue) observes, privatization of one type does not necessarily imply privatization of the other type. For example, a nation might privatize some of its state-owned enterprises without deregulating

the industry or the base economy in which those enterprises compete.

Another form of the narrow definition of privatization is the transfer of ownership and decision-making authority from federal, state, or municipal governments to the hands of private investors (DeCastro & Uhlenbruck, 1997; Ogden & Watson, 1999; Vickers & Yarrow, 1988). The potential effects of narrow and broad types of privatization provide an important research question. Although not the focus of the special topic forum, we revisit this issue in our discussion of future research directions.

The appropriation of residual rents (profits) can occur through private or public mechanisms. When it occurs through private mechanisms, profits go to private owners as rewards for risk taking, entrepreneurial activities, and efficient and innovative management (Jensen & Meckling, 1976). These profits also can be used in ways that benefit the public welfare, such as expanding companies' operations to create jobs and reduce unemployment (Hart, 1995). These actions should benefit the firm, its shareholders, and the general public welfare.

Allocation of ownership rights is another key dimension in understanding privatization. Ownership rights refer to the locus of authority for making strategic choices (Jensen & Meckling, 1976). These rights usually occur on a continuum, ranging from wholly public to totally private. Owners generally have the authority to decide the firm's strategic goals, develop its competitive strategy, and allocate its resources. Certainly, this is the case when private parties hold ownership.

When public managers, representing state owners or a specific constituency, control ownership and, hence, decision rights, the mandate embodied in their organizations' founding charters will be discharged. Public managers, therefore, often must address a set of complex—indeed, competing—goals that include creating employment opportunities, managing national resources, and ensuring social justice. Achieving these diverse goals frequently entails satisfying multiple political claims, which may result in significant deviations from market-based efficiency. Thus, considered from a micro level, these managers often operate from an institutionalized public sector template when encountering privatization. Johnson, Smith, and Codling (this issue) propose that at the onset of

privatization, this template may be deeply embedded, taken for granted, and oftentimes mindlessly enacted. To facilitate the privatization process, a firm is challenged to take actions through which a private sector template can be institutionalized within its managerial ranks. Therefore, Johnson and colleagues view privatization as a process of institutional change.

Figure 1 indicates that different types of privatization activities can be observed from linking the two dimensions of ownership rights and the appropriation of profits. In prior research scholars have failed to recognize the different types of privatization, thereby overlooking a major source of variation in the observed results of privatization.

Four types of organizational forms are evident in Figure 1. Cell 1 represents the "pure public firm," where ownership rights are in the hands of public owners and the appropriation of profits is used for the public good. This type of organization dominated many underdeveloped and socialist countries in the second half of the twentieth century. In cell 2 public owners control ownership (decision) rights while residual rents are appropriated through market (private) means. Here, two major organizational forms are prevalent: franchises and regulated firms. Both organizational forms have been used widely in developed and emerging economies. In cell 3 private owners hold ownership rights, but the appropriation of profits is performed for the public good. Such organizations typically are classified as "not-for-profit." Finally, in cell 4

FIGURE 1
Classification of Firms with Ownership Rights and Profit Orientation

		Ownership rights	
		Private	Public
Profit appropriation orientation	Yes	Pure private firm (4)	<ul style="list-style-type: none"> • Regulated • Franchises (2)
	No	Not-for-profit organization (3)	Pure public firm (1)

Source: Adapted from Salas (1998).

private owners to whom the profits are also disbursed hold the ownership rights. This cell, therefore, depicts the prototypical "pure private firm."

We suggest that multiple outcomes are possible when privatizing pure publicly owned firms (Figure 1). Most researchers readily recognize a firm's movement from pure public to pure private forms, but the other forms of organization require further study. For instance, the state might permit the private appropriation of residual rents, thereby moving the firm from cell 1 to cell 2. Franchising and management contracts can be used to achieve this change. A final type of privatization entails moving the public firm (cell 1) to a not-for-profit status (cell 3). The state might make this change to avoid the costly management of public firms while promoting efficiency and social good. Although theoretically interesting, management scholars have not systematically examined this type of privatization strategy.

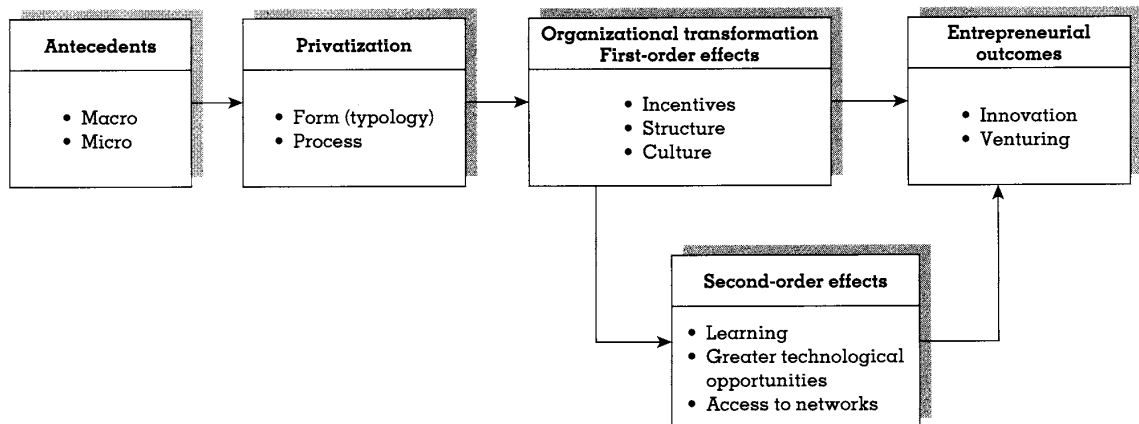
As the above discussion suggests, privatization is a multidimensional construct that can affect different facets of organizational transformation in multiple ways. Similarly, several forces can influence these dimensions, affecting the overall gains that companies are able to achieve following privatization. Understanding how to achieve these gains, however, requires an appreciation of the antecedents of privatization and the resulting changes from privatization.

A MODEL OF PRIVATIZATION: ANTECEDENTS AND EFFECTS

As shown in Figure 2, a complex set of variables interacts to affect the mode and process of privatization (DeCastro & Uhlenbruck, 1997; Johnson & Loveman, 1995; Ogden & Watson, 1999). These variables, however, differ significantly between developed and emerging economies. Although in both types of economies governments aspire to curtail governmental control, promote competition, improve productivity, and induce market-based efficiency, in emerging economies other motives can significantly affect privatization efforts. Often, in emerging economies, privatization has been implemented in response to demands from the International Monetary Fund (IMF). Governments of emerging economies that seek loans to support economic development often have been required to introduce substantial economic liberalization policies (Hoskisson, Eden, Lau, & Wright, in press).

Thus, in these economies privatization is used as a means of transplanting a procapitalist political ideology by liberalizing the economy, promoting foreign investment, infusing new technology, and increasing national standards of living. In some emerging economies privatization is also used as a means to upgrade infrastructure and facilitate future industrial growth. An improved infrastructure supports companies' efforts to enhance the efficiency of their operations and also can facilitate the creation and

FIGURE 2
A Model of the Privatization Process and Outcomes



growth of new firms, which are the engine of economic and technological progress (Acs & Audretsch, 1993).

Macroenvironmental factors alone do not explain the selection of enterprises targeted for privatization. The importance of the enterprise to the national welfare or other sectors of the national economy plays a key role in the selection process (Shafik, 1996). The economic importance of an enterprise usually is determined by its potential contributions in fulfilling market demand, creating jobs, and meeting the needs of other sectors in the national economy. These evaluations, however, are also often based on the perceived importance of the enterprise for national sovereignty and identity. The greater the importance attached to national sovereignty, the less likely it is that an enterprise will be privatized.

Other factors that influence the selection of enterprises for privatization include their cost of operations, solvency, and track record in earning profits (Shafik, 1996; Shleifer & Vishny, 1994). For example, poorly performing public enterprises frequently are among the first to be privatized, perhaps to buffer the taxpayer from their operating costs. The decision to select an enterprise for privatization also depends on the availability of competent managerial leaders who can oversee the firm's transformation. This is a particularly difficult task in emerging economies, where the lack of qualified senior executives can make the transformation of a public enterprise into a private firm challenging (Ozkaya & Askari, 1999).

Most prior research on the antecedents of privatization has been descriptive in nature or based on case studies (Johnson & Loveman, 1995; Soulsby & Clark, 1996). Moreover, this research has not been well grounded in theory, making it difficult to draw solid conclusions about the relative importance of the different antecedent variables or to predict which firms are most likely to be privatized. Therefore, an important opportunity exists for management scholars to explore the determinants of privatization and their relative importance. It should be recognized that privatization decisions are not totally rational, because political factors affect the choice of companies to be privatized. Future research on privatization would also benefit from connecting the antecedent vari-

ables discussed earlier (Figure 2) to the types of privatization strategies followed.

PRIVATIZATION STRATEGIES: MODES AND PROCESSES

Privatization can be partial or full, occurring in ways that include the sale of a company's assets or shares (through public bidding or negotiated agreements) to domestic or foreign investors; the granting of leases, concessions, or management contracts; and employee or management buyouts (Djankov, 1999). Countries employ different strategies in privatizing their economies (Cuervo & Villalonga, this issue) and use different strategies in separate economic sectors, or apply different strategies within the same sector at different points in time. These differences reflect variations in political ideology, stage of development, national cultures, and long-term development plans (Filatotchev, Wright, Buck, & Dymonia, 1999a; Filatotchev, Wright, Buck, & Zhukov, 1999b).

Researchers have documented the frequency with which different modes of privatization have been used, as well as the resulting outcomes (success or the lack thereof; Djankov, 1999; D'Souza & Megginson, 1999; Welfens, 1992). Yet, as Cuervo and Villalonga (this issue) observe, little attention has been given to documenting the processes used to implement these strategies or to examining the relationship between them and subsequent changes in a company's structure or organizational culture. Still, there is anecdotal evidence that the process by which a firm is privatized could affect its future gains (Dean, Carlisle, & Baden-Fuller, 1999; Johnson & Loveman, 1995; Smith, Golden, & Pitcher, 1999). These observations are consistent with research indicating that the speed, direction, and magnitude of changes introduced to revise a company's business definition, strategy, or organizational structure can affect the outcomes of these efforts (Huber & Glick, 1995). As noted in Figure 2, we separate these outcomes into first- and second-order effects.

First-Order Effects of Privatization

Privatization also creates a new context in which firms must compete to survive and succeed. The transformation accompanying privatization changes the enterprise's structure and

the way it is managed, thereby leading to fundamental changes in the firm's culture (Johnson & Loveman, 1995). Privatization also changes managers' incentives (Wright, Hoskisson, Busenitz, & Dial, this issue). Below we examine changes in managerial incentives, as well as organizational structure and culture following privatization.

Managerial incentives. Managers of state-owned enterprises usually have limited discretion to initiate and implement strategic changes (Cragg & Dyck, 1999) and are constrained by bureaucratic controls that limit the scope of their activities and authority. Some of the controls are financial in nature, specifying performance quotas and targets. Financial controls typically reflect the objectives of political policy makers (Vickers & Yarrow, 1988). Commonly, financial controls stifle managerial efforts to think strategically about the organization's purpose and the actions to be taken to achieve it (Hitt et al., in press c). Central or governmental planning authorities often have the responsibility to establish public managers' compensation (Cragg & Dyck, 2000).

Following privatization, a new set of dynamics occurs. Notably, senior managers begin to plan and develop strategies based on analyses of industry and market conditions. Managers also have the discretion to redefine organizational goals to reflect the objectives of their key stakeholders (Yarrow, 1986). Furthermore, they have greater discretion in aligning resource allocations with the firm's objectives. Discretion is the capability through which managers select and support projects that they believe are vital to accomplish the firm's long-term goals. Resource allocation decisions, therefore, should reflect market realities and the managers' judgments about the strategic actions that have the highest probability of leading to firm profitability. Thus, after privatization, managerial discretion for resource allocation increases, improving the alignment among the firm's goals, resources, and capabilities. These observations are based on the assumption that managers are capable of operating effectively in a market economy and that they have the knowledge and skills required to develop and implement effective strategies.

After privatization, the firm and its management are subjected to market forces. The managers become accountable to shareholders,

compelling them to pursue strategies that increase shareholder wealth. Managers assume the burden of reorganizing the existing capital and labor stocks, establishing sales and marketing units, implementing new accounting and control systems, deciding new product strategies, and developing and implementing new investment programs (Sachs & Lipton, 1990). As a result, managers' reputations and compensation should be tied to the firm's performance, providing them with incentives to formulate and implement strategies that increase shareholder value (Zahra, 1996). There is evidence that managers' compensation increases following privatization and that the compensation of managers in privatized companies is similar to that of other publicly held corporations (Cragg & Dyck, 2000). Increased discretion and compensation can improve managers' willingness to take risks and support innovation (Hoskisson, Hitt, & Hill, 1993; Wright et al., this issue).

Organizational structure and culture. The freeing of prices, reduction in regulation, and increase in competition associated with economic transition highlight the inefficient organization of firms before the privatization process. For firms to survive economic liberalization, they often need to be restructured. Limited research exists in which authors have examined the changes in a firm's organizational structure and culture following privatization. The implications of these changes, if any, for managerial decision making have not been well documented (Cragg & Dyck, 1999, 2000). However, some research indicates that privatized companies often experience structural and cultural changes that affect their operations (Cuervo & Villalonga, this issue; Johnson & Loveman, 1995). For example, privatized firms become subject to market pressures and are forced to become more efficient and cost effective, which often requires employee attrition (D'Souza & Megginson, 1999). Privatized firms frequently downsize their employee base and provide the survivors of such layoffs with training to develop new skills and increase job performance. Employee pay and benefits often are revised to reflect labor market conditions, and incentive systems and other approaches are used to motivate employees and improve their performance.

Privatized companies also change their organizational structures to ensure faster decision making by eliminating layers of management and reducing bureaucratic rules (Cuervo & Vil-

alonga, this issue). Flatter organizational structures, therefore, are more common in privatized companies, and they usually facilitate communication between management and employees. Improved communication can strengthen employee commitment to the organization, encouraging employees to be more productive and innovative. When the organizational culture strengthens employee identification with the company, it promotes a willingness to take the types of risk that lead to product, process, and administrative innovations (Kanter, 1989).

Second-Order Effects of Privatization

Privatization also creates a set of national (macro) and organizational (micro) changes, as indicated in Figure 2. These changes, in turn, may stimulate organizational learning (Doh, this issue; Newman, this issue) and the acquisition of new skills. Learning capabilities and additional skills can provide the foundation for enhanced technological opportunities for firms, as well as the capabilities needed to gain access to different domestic and international networks (Zahra et al., in press). We refer to these three variables (learning, opportunities, and networks) as second-order privatization effects. We distinguish these effects from the more apparent changes within a firm following privatization.

Although more subtle than first-order effects, second-order effects are equally powerful in their potential impacts. Second-order privatization effects reflect the combined influences of internal (organizational) changes and external (macro) variables. Three potential second-order privatization effects are highlighted in Figure 2: improved organizational learning, increased technological opportunities, and gaining access to networks.

Improved organizational learning. Ideally, the first-order effects discussed above (Figure 2) will create an internal environment that encourages managers to experiment and explore new strategic alternatives. The changes privatization induces usually are so radical that a new organizational mindset is needed to comprehend and capitalize on the opportunities that become available to the firm (Smith et al., 1999). Thus, privatization can be viewed as a "frame-breaking" event that compels managers to envision and examine their industry, environment,

competition, and the firm from a different perspective (Dean et al., 1999). Frame-breaking change usually is conducive to experimentation and innovation, which, in turn, promote organizational learning (Newman, this issue).

Privatization also creates a business environment hospitable to foreign investments, particularly those involving the transfer of innovative technology, as well as modern management, production, and marketing techniques. Some foreign investors partner with privatized companies by forming strategic alliances, such as joint ventures. These alliances give the privatized companies opportunities to learn new skills and capabilities from their more resource-rich foreign partners (often from developed market countries; Hitt et al., in press a).

Learning new capabilities is likely to facilitate privatized companies' abilities to capitalize on market opportunities. The freedom to act independently because of privatization also spurs innovation that increases technological opportunities throughout an entire industry. As such, privatized firms can introduce new products and services to the market, unencumbered by government bureaucracy or political processes. Alternatively, privatized firms may initially attempt to license, copy, or imitate the technological skills of their advanced foreign partners or rivals.

These imitative processes are important, especially in the developmental stage, where privatized firms focus on building their skills and capabilities by learning from foreign partners or competitors. Appropriation by imitation is affected by the degree to which partners protect their proprietary technologies through formal mechanisms (e.g., contracts) or informal means (e.g., structural configurations influencing the nature of interactions between partners). Once they achieve technological proficiency, however, some privatized firms experiment with new R&D processes to develop innovations. Experimentation also enables privatized firms to develop a new set of routines that can be useful in making the transition from imitation to innovation (Kim, 1997).

Increased technological opportunities. We define technological opportunities as the potential for product and process innovation within an industry. As indicated in Figure 2, we expect these opportunities to increase subsequent to privatization. Privatization often encourages foreign investments (Filatotchev et al., 1999a) that

facilitate or even promote technology transfer. Foreign partners may be willing to transfer the technology because of a potentially significant return on their investment over time. Also, foreign partners may learn new capabilities from the venture (Hitt et al., in press a; Zahra et al., in press). The flow of modern technology into a newly privatized economy can spark innovation as local entrepreneurs use this technology to pursue promising market opportunities. The transfer of technology also allows local entrepreneurs to integrate separate technologies imported from different countries. This process fuels experimentation and innovation, leading to higher productivity.

Following privatization, technological opportunities are likely to increase, because local entrepreneurs are more willing to take risks, either by forming their own companies or by forming joint ventures. This process is made easier by informal and formal sources of venture capital that increase following the liberalization of an economy, encouraging entrepreneurs to identify and pursue new market opportunities. Also, developmental financial institutions (DFIs) often play an important role in financing privatized companies' strategic actions or entrepreneurial efforts. George and Prabhu (this issue) describe DFIs and their roles in emerging economies. DFIs' role is similar to that of large institutional investors present in developed countries. These organizations provide long-term capital through loans or take equity positions in newly privatized firms. Some DFIs offer a range of other important services in addition to providing capital, such as serving in a consulting-type capacity. In this capacity DFIs assist in efforts to identify market opportunities, search for managerial talent, and conduct feasibility studies. These services and growing access to capital can increase the competitiveness of privatized firms (George & Prabhu, this issue).

The identification and pursuit of new technological opportunities vary across countries and economies. The speed of actions taken to identify and pursue these opportunities depends partially on the national economy's level of technological sophistication, as well as its absorptive capacity (ability to learn). A country's absorptive capacity is determined by its prior investments to acquire and assimilate technological skills (Mowery & Oxley, 1995). As the absorptive capacity of the country expands, its

ability to assimilate new technology increases. Assimilation increases the ease and speed of innovation diffusion, thereby igniting innovation. Given the interdependence of economic sectors, innovation in one industry can fuel innovation in other industries, thereby enhancing the total set of technological opportunities.

National culture is another factor that can determine the nature and size of emerging technological opportunities. Some research indicates that national cultural variables play a major role in determining the rates of innovation (Shane, 1995). In societies valuing risk taking and innovation, entrepreneurs are likely to seek and identify market opportunities that might have been overlooked prior to the liberalization of the economy. Further, coupled with the adoption of imported technologies, the effect of national cultures in these societies on creating technological opportunities will increase following privatization. These opportunities will expand as domestic entrepreneurs become connected to influential networks within and across their national borders.

Gaining access to networks. Liberalization of an economy and extensive privatization are also expected to link domestic producers and entrepreneurs to venture capitalists, investors, and technology providers outside their national borders. As stated previously, privatization often encourages foreign investments in the form of cooperative ventures and the increased availability of institutional capital. Following privatization, foreign investors become an important linkage between local firms and external sources of ideas, technology, and capital. Maturing relationships between domestic firms and foreign investors also build trust, thereby allowing a free flow of information and ideas leading to additional ventures. Of course, the development of trust and the learning that can occur as a result of its emergence can lead to additional cooperative ventures and enhanced innovation.

Domestic firms might develop their own trade associations or cooperative organizations to increase their chances of survival. As in developed countries, trade associations and other organizations that are framed around mutual interests disseminate information. The purpose of this information is to educate members regarding current market opportunities and possibilities, as well as the nature of different competitive strategies, and to provide the insights

required to lobby local and state officials. Effective lobbying efforts are those through which firm representatives articulate common industry positions about issues of critical interest to trade association members. Cooperative associations also serve as a catalyst for further new venture partnerships among members (Doh, this issue).

ENTREPRENEURIAL OUTCOMES OF PRIVATIZATION

Our model highlights two key entrepreneurial outcomes of privatization: innovation and new ventures (or venturing; Figure 2). We refer to innovation as the creation of goods and services, where product innovation also includes upgrades and extensions of existing products (incremental innovation). It also includes radical new product development. Whether radically new or modified products, these innovations are necessary to capitalize on the technological opportunities created by liberalization of the economy and the resulting privatization. Product innovations help to meet the growing expectations of consumers who have discretionary incomes created through risk taking in the new economy. Process innovations or the introduction of new methods of producing goods or services also should flourish following privatization. Process innovations are necessary to assimilate foreign technologies in domestic industries and to build new and efficient manufacturing systems. Thus, process innovations contribute to the operational efficiencies and improved productivity levels often reported following privatization.

New ventures involving the creation of new business or a move into new domestic and international markets are perhaps the most visible changes following privatization. Favorable tax laws rewarding calculated risk-taking practices can encourage new business creation. Changes in property laws also accompany privatization, making it safer for individuals or groups of investors to create, own, and manage a new enterprise.

Domestic and international venturing are important means for developing new revenue sources (Zahra, 1996). Venturing is made possible by the emergence of supportive industries and services (e.g., international consultants), increased exposure to different economic systems, and access to networks. Domestic companies also join forces with international firms to penetrate new domestic and international markets.

Figure 2 indicates that the macro and micro changes discussed can directly influence privatization outcomes. In prior research scholars have linked changes in a firm's institutional context to increased innovation and venturing (Kirzner, 1973; Morris, 1998). Macroinstitutional changes are crucial in inducing strategic changes (Newman, this issue).

CAVEATS AND EXTENSIONS OF MODEL

The above discussion suggests that privatization can yield diverse but important outcomes that create wealth for nations and companies. Nonetheless, articles in this issue also indicate that the lack of institutional infrastructure might serve as a barrier to successful entrepreneurial efforts (see Newman and Spicer, McDermott, & Kogut, this issue).

Newman explains that although institutional change is necessary to promote the organizational changes desired, too much institutional change can inhibit second-order learning. When this occurs, some managers rely on obsolete or older inappropriate routines that lead to non-adaptive mimetic changes (Newman & Nollen, 1998). This type of institutional "upheaval," as Newman (this issue) calls it, has especially strong effects on firms that were embedded in the central planning systems in the former socialist countries. These firms did not possess sufficient entrepreneurial capabilities and are unable to operate effectively in a market-oriented economy without significant support.

Equally important, Johnson and colleagues (this issue) argue that public sector managers develop a mindset, through institutionalization processes, that is counterproductive with respect to effective privatization. These authors observe that privatization requires a shift from one institutional template to another. For these reasons and others, Spicer and colleagues (this issue) argue that entrepreneurship is better fostered through gradual privatization processes (as completed through negotiated property rights reform processes) rather than large-scale rapid privatizations. The gradual approach permits experimentation with infrastructure needs and institutions to determine the ones that are more effective as compared to an immediate change to a total market-based economy.

In addition to institutional barriers, privatized firms in emerging economies might experience

unique agency costs. In these countries the corporate governance structures and laws governing ownership rights often are underdeveloped and/or weak (Dharwadkar, George, & Brandes, this issue). The weak governance structures and limited protection of minority shareholders often create the potential for significant agency problems. Managers in newly privatized firms might expropriate the firm's assets, grant themselves special privileges, and become entrenched, opposing change and innovation. Of course, these outcomes are antithetical to those expected from privatization, as described earlier. Dharwadkar and colleagues, therefore, suggest that stronger governance structures and protection of ownership rights are required to overcome the agency problems some privatized firms experience. These authors also propose that certain ownership, organizational, and capital structures are likely to be more effective in the emerging economy context. These structures can mitigate agency costs and improve firm performance.

Interestingly, firms in which DFIs are involved, by providing capital, are likely to have stronger governance mechanisms. In fact, George and Prabhu (this issue) argue that DFI involvement in firm governance increases value creation. DFIs usually encourage efficient resource utilization and act to prevent agency problems. However, DFIs might not become involved in the governance of a firm unless it is vital to the national economic interest or priorities. Thus, DFIs may help prevent or resolve some but not all of the potential agency problems in newly privatized firms.

Wright and colleagues (this issue) suggest that the agency problems can be mitigated with the right incentive structure. Specifically, a combination of appropriate ownership, organizational, and incentive structures, along with institutional investor involvement, can reduce the agency problems and increase the effectiveness of privatization. Outcomes such as these may become part of the negotiated processes that Spicer and colleagues (this issue) discuss.

Doh (this issue) argues that privatization takes many forms, as suggested earlier. More important, Doh emphasizes the benefits a firm gains by being a first mover in privatization. Interestingly, he says that the benefits of the first mover are greater when it partners with an incumbent. Second and third movers, Doh argues, are at a significant disadvantage in this

environment. Clearly, this is an empirical question. Indeed, Ramamurti (this issue) suggests that the causes of privatization and their effects are understood properly only through a dynamic—not a static—model: one that encompasses analyses of firm, industry, and country effects.

These works, coupled with all the issues addressed in the special topic forum, suggest several areas for future research.

FUTURE RESEARCH

The articles in this special topic forum provide a wealth of issues for scholars to examine as they conduct future studies on privatization. Table 1 summarizes the focus, level of analysis, economic context, theoretical basis, and variables examined in each of the contributions included in the special topic forum. The theoretical arguments the contributors articulate, as well as the propositions they offer, should be tested empirically.

Further, we suggest below other avenues for additional research. The area of privatization and entrepreneurial transformation is particularly rich in research opportunities. The increasing globalization of the world economy highlights the need for a greater appreciation and understanding of the effects of privatization on entrepreneurial transformation.

Several areas require further research. First, the effects of different types and levels of privatization should be explored. We believe that all privatization activities are unlikely to have the same outcomes; as such, more work must be done to identify the specific effects of each type and level of privatization to have a better theoretical understanding of the outcomes expected from privatization. Ramamurti's (this issue) suggestion of the difference between broad and narrow privatizations may be a framework through which some of these research questions could be explored.

Second, the increasing growth of cooperative arrangements (e.g., strategic alliances) among firms is another issue requiring study. Do alliances facilitate privatized firms' efforts to compete successfully in market-based economies? Are the most successful partnerships formed between newly privatized firms within the same economy or between a newly privatized firm and another company from a developed economy?

TABLE 1
Articles in This Issue: Themes and Theoretical Bases

Author(s)	Economic Context	Level of Analysis	Theory Base	Ownership Structure	Dependent Variables
Ramamurti	Emerging economies	Multiple	Agency theory	<ul style="list-style-type: none"> • Partial ownership • Dispersed ownership • Employee stock ownership plans • Local groups • Multinational enterprises 	Selection of firms to be privatized
Doh	Emerging economies	Firm	Integration of I/O and resource-based view	Not applicable	First mover advantage and entrepreneurial transformation
Johnson, Smith, & Codling	Emerging economies	Manager and firm	Microinstitutional perspective	Not applicable	Entrepreneurial mindset
Cuervo & Villalonga	Emerging and advanced economies	Firm	Agency theory and public choice theory	Not applicable	Company performance
Wright, Hoskisson, Busenitz, & Dial	Transition economies	Firm	Agency and cognition theory	Management ownership (through buyouts)	Managerial behavior and entrepreneurial activities
Newman	Transition economies	Firm	Organizational learning, institutional theory, and organizational change theory	Not applicable	Organizational transformation, learning, and entrepreneurial behavior
George & Prabhu	Emerging economies	Country and firm	Stakeholder theory and corporate governance	<ul style="list-style-type: none"> • Management and employee • Foreign firms • Domestic individuals and firms 	Firm performance
Spicer, McDermott, & Kogut	Emerging economies	Firm	Institutional theory	Not applicable	Effective policies, focused on gradual restructuring, that foster entrepreneurship
Dharwadkar, George, & Brandes	Emerging economies	Firm	Agency theory	<ul style="list-style-type: none"> • Ownership dispersion (dominant vs. distributed) • Ownership type (outsider vs. insider) 	Managerial behavior and firm performance

As Table 1 indicates, the authors of articles published in this special topic forum have used several theoretical bases, including industrial organization (I/O) economics, the resource-based view of the firm, and institutional theory, to describe newly privatized firms' behavior. Organizational learning and organizational change theories also have been applied to help us understand how newly privatized firms react to their changing environments. Finally, authors have analyzed agency theory and entrepreneur-

ial cognition theory to explain managerial behavior. Still, we need to understand how these theoretical perspectives can be integrated to develop a theory of privatized firm behavior. Which of these theoretical perspectives provide the most effective explanations of privatized firms and managerial behavior? Are there other potent theories that can help in understanding these important phenomena?

Beyond these points and theoretical issues is a specific set of research questions we believe

scholars should address in future research. For example, research should be completed that will contribute to our understanding of how the institutional infrastructure affects the entrepreneurial potential of privatization. What steps can be taken to change the infrastructure simultaneously with privatization? How can privatization be successfully implemented?

Johnson and colleagues (this issue) argue that an entrepreneurial mindset is not common among managers in privatized firms, although this mindset likely is related positively to strong performance following privatization. We need more research on how to infuse an entrepreneurial mindset in managers within newly privatized firms. Moreover, what is the relationship between a global mindset (Hitt et al., 2001b) and an entrepreneurial one? Is a combination of the two mindsets one that would be even more facilitative of firm success while privatizing and following the completion of the privatization process? Perhaps managerial incentives are the answer, as suggested by Wright and colleagues (this issue), in that appropriate incentives might stimulate and support development of appropriate entrepreneurial mindsets.

We need empirical work, however, in which scholars examine this issue. Do the incentives reduce the agency problems identified by Dharwadkar and colleagues (this issue)? If not, why not, and what incentives might overcome agency problems? Can DFIs facilitate the formation of entrepreneurial mindsets by providing more effective governance of privatized firms? Are there better means of establishing effective governance in privatized firms? If so, do these means vary by the characteristics of unique national cultures?

Peng (in press) argues that changes in transitional economies to a free market system unleash the power of entrepreneurship. His arguments relate to general entrepreneurial ventures developed in the economy, as opposed to privatized firms. For example, Peng suggests that in Central and Eastern Europe, about 5 percent of the adult population has started a new venture—a figure similar to the percent of the population in the United States engaging in entrepreneurial ventures. McCarthy, Puffer, and Shekshnia (1993) also describe the resurgence of an entrepreneurial class in Russia. Therefore, while privatized firms may experience problems operating entrepreneurially in a free market, entrepreneurial ven-

tures may flourish in the general population. Clearly, we need additional research to understand how the entrepreneurial mindset develops in the general population, as well as insights about why this mindset permits some to identify and exploit opportunities while others fail to do so (Shane & Venkataraman, 2000). Moreover, additional research should be conducted to isolate the outcomes of entrepreneurial ventures outside of privatized firms in transition economies.

There is a need to understand human resource management (HRM) requirements in newly privatized firms, especially in transition economies. How can employees' skills, motivation, and productivity be enhanced? What are the most effective ways in which explicit and tacit knowledge can be developed and transferred among the workforces of former state-owned enterprises? According to Welsh, Luthans, and Sommer (1993), the HRM challenges might be particularly significant in these firms.

CONCLUSIONS

Privatization is a frequently used strategic option in today's rapidly globalizing economy. Driving the popularity of this strategy is the desire of different nations' governments to spur the type of economic activity that will allow their countries to be productive participants in global markets—markets that, in many instances, are becoming more consistent with the forces of free market economies in their operational and legislative contexts. The popularity of privatization is evident in developing and developed, as well as emerging, markets. In developed markets, formerly state-controlled industries are being deregulated (e.g., utilities). Thus, privatization occurs in selected sectors, and because of an active free market in other sectors, there are many successful examples (best practices) of the newly deregulated firms to follow.

In emerging economies, however, it is common for many industries to be operated or controlled by the national or state governments. Furthermore, privatization might be required by external parties for the financing needed (e.g., IMF), encouraging these governments to liberalize their economies. In these cases there is mass, and oftentimes rapid, privatization. Mass privatization is intended to support a rapid privatization program, in which the state's role is minimized and the market's role maximized

(Spicer et al., this issue). The twin goals of mass privatization often may be speed and fairness (Newman & Nollen, 1998). Nonetheless, because infrastructures required to privatize enterprises in a "fair" manner might not be developed quickly during a mass privatization program or process, the fairness dimension in countries experiencing a rapid privatization process often becomes a subject of debate among citizens and their government representatives.

As this discussion and some of the articles included in the special topic forum indicate, there are few previous exemplars or models of privatization in the global economy. The privatized firms in developed markets frequently are resource rich, whereas those in emerging markets are resource poor. The emerging market context is more uncertain, with economic, social, and political instability (Hitt et al., in press a). These characteristics of the environment clearly affect the rules of exchange in markets (North, 1990). There are major differences in the institutional infrastructures between emerging and developed economy countries (Newman, this issue). Thus, the entrepreneurial outcomes are not as certain as suggested in the previous literature on the economic transformation in transition economies. The work published in this special topic forum provides some explanations and describes activities that might be necessary to promote more effective entrepreneurial efforts. The articles presented herein also offer an interesting set of answers to existing but complex questions, along with new research questions.

We are pleased to commend the authors' contributions to you. We hope these articles will stimulate interesting and productive analyses of important research questions about privatization and entrepreneurial transformations across multiple types of economic structures.

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