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LETTER FROM THE EDITOR

I am struck by the ground-breaking insights about Chinese firms offered by the articles published in this issue and cannot wait to deliver them to you, my dear readers!

The first paper on firms' rhetorical nationalism is phenomenon-driven, original, rigorous, and innovative. Yue, Zheng, and Mao (2024) conceptualize firm nationalism as a four-dimensional theoretical framework and develop a measurement that includes national pride, anti-foreign sentiment, dominant agenda, and corporate role. They then use machine-learning-based text analysis of over 41,000 annual reports of Chinese public firms from 2000 to 2020 to show a continuous rising pattern of rhetorical nationalism among Chinese firms. Furthermore, firms' rhetorical nationalism is related to both strategic and socialization factors, with those that are state-owned enterprises, older, larger, more profitable, and consumer-facing, with more individual investors and less income from overseas demonstrating a higher level of nationalism. Intriguingly, firms with more rhetorical nationalism also have better future financial returns through increasing domestic profitability.

Nationalism also emerged as an effective strategy in legitimizing the illegal Shan-Zhai (山寨) phone in China, as shown in Hung and Chen's (2024) study of how shan-zhai phone entrepreneurs reframed their businesses to update their identities over a 13-year (1998–2011) period. The authors divide the reframing process into three stages, corresponding to three firm identities: pragmatic reframing – niche-market identity; nationalism reframing – socio-political identity; and comprehensive reframing – professional identity. Such identity-building via cultural reframing explains how the shan-zhai phone business was gradually accepted by the government, consumers, multinationals, and global markets.

To explore how identity is related to corporate tax avoidance in firms with multiple large shareholders, Huyghebeart, Kang, Wang, and Wu (2024) investigate a sample of Chinese state-controlled listed firms over the period 2004–2016. They reveal three main findings: (a) the largest shareholder is least likely to engage in tax avoidance, especially when the local government is the controlling shareholder; (b) large non-state shareholders are unlikely to avoid taxes; and (c) a better institutional environment in state-controlled firms is more conducive to tax avoidance and thus curtails minority investor expropriation.

Meanwhile, Zhang, Ruan, and Tong (2024) investigate how religious institutional environments, such as Buddhism- and Confucianism-based institutions, influence vertical executive pay dispersion. Using a sample of Chinese public firms from 2010 to 2018, the authors find that executive pay dispersion is smaller in firms located in regions with more Buddhist and Confucian temples, but when the firm has a communist party branch or when the CEO is younger, the effect of religious institutional environment on pay dispersion becomes weaker.

Turning attention to Chinese manufacturing firms, Liu, Song, Lai, and Xie (2024) study how they respond to performance feedback by focusing on the temporal dimension of performance shortfall. Using a sample of Chinese listed manufacturing firms between 2010 and 2019, they find that the duration of underperformance moderates the inverted U-relationship between underperformance intensity and research and development (R&D) investment, that is, the inverted U-shape flips to a U-shape if underperformance extends into the long term.

Finally, Zhou and Park (2024) decompose firm performance into two categories – growth and profit – and define growth performance as driven more by versatile resources such as cash (less firm-specific), whereas profit performance is driven more by valuable, rare, inimitable, and non-substitutable resources (more firm-specific). Using data from the US, China, and global samples, the authors find that the firm effect is more critical in determining profit than growth across all samples, and that emerging market firms are more capable of utilizing versatile resources than developed market firms.

I hope these insightful findings serve as a catalyst for developing a deeper and more nuanced understanding of how Chinese firms deal with cultural, social, and environmental changes to survive and thrive. Thank you for your attention.

Xiao-Ping Chen

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