TITLE PAGE

Paper title: Entrepreneurial Growth and Ownership under Market Socialism in China: A longitudinal Case Study of Small and Medium-Sized Enterprises

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Entrepreneurial Growth and Ownership under Market Socialism in China:
A longitudinal case study of small and medium-size enterprises

Ping Zheng

Synopsis

How firms grow is still mysterious and remains an incomplete explanation. This is especially the case for emerging economies where the development of business growth research has been notably slow whilst emerging business ventures are developing at hyper speed. Since most empirical studies have focused on the quantitative differences in growth across firms, in this paper, a longitudinal case study approach has been adopted to explore the qualitative differences in terms of how various types of firm achieve their growth outcomes in the organisational development process over a prolonged period of time. Through a theoretical lens which focuses on growth process approaches, this study not only demonstrates that entrepreneurial processes take different forms and dimensions in different contexts, but it also provides insights into the interaction of various organisational factors underpinning the strategy choices and firm developmental changes that lead to contrasting growth outcomes. Case study findings assert that the ownership factor is a key contingent factor that shapes management structure and resources which, in turn, affect particular entrepreneurial outcomes. Furthermore, a combination of leadership style and the approach to knowledge management also play critical role in the learning process which, as consequence, tend to determine the strategy choice of either high or low value added product strategy. The findings of this research are that small firms with a low value product strategy can improve their survival chances and improve the likelihood of growth, through the vertical broadening of a product portfolio in synchronism with an increasing production capacity and technology advancement. The case study companies divided in high- and low value industry chain show the tendency to reinforce their industry position by adopting contrasting strategy choices for growth. The paper addresses the challenges and managerial implications for Western company managers in different growth contexts.

Key words: growth process, small business venture, ownership, strategy, leadership, learning, organisation approach, resource-based view

Introduction

A central thesis in strategic entrepreneurship research literature is firm growth theories. Despite substantial empirical research and theoretical development in this field, a comprehensive understanding of the complexity and heterogeneous nature of firm growth phenomena is still very limit and inconsistent (Leitch et al, 2010; McKelvie and Wiklund, 2010). A recent review (Shepherd and Wiklund, 2009) found over 80 empirical studies in leading management and entrepreneurship journals published over the past 15 years and noted that there was a lack of attention to the potential qualitative differences in firm growth paths, since most of the studies focused on the question of "how much?" before providing answers to the question of "how?" (McKelvie and Wiklund, 2010:216). There is insufficient research evidence on explaining firm growth process and outcomes. Within this development process, the variations such as intentions and goals, resources and opportunities in organisations may change over time, which will ultimately affect the modes of growth over different periods and contexts. That said, the "how" aspect of growth is a fundamental question that needs to be better understood and requires more research (McKelview and Wiklund, 2010; Leitch et al, 2010). Thus this is the inspiration for my research question in which I have set out to explore how small to medium size enterprises, subject to different types of ownership, grow together with sheding light on the general topic of SMEs growth and development in emerging economies. This is achieved through a longitudinal study of three real-time case studies of firms in contrasting growth modes between 2005 and 2010. It attempts to provide insightful explanations on the sequence of organisational changes leading to the shift of strategic focus and reorganising of resources. It addresses the similarities and differences of the managerial implications for different strategy choices in relation to the organisation's learning process and, as consequence, different venture outcomes. Furthermore, in this research, entrepreneurial and business growth is assessed by taking into consideration the impact of ownership on small firms' growth outcome. As Porter (1990:110) suggested, ownership structure exerts a strong influence on the goals and structure of the organisation. Indeed, a large body of literature has emphasised the important implications of the ownership factor in the formulation and deployment of firm's strategy and resources (Yang, 2002; Tan, 2004; Peng et al, 2004; Ghobadian and O'Regan, 2006; Zahra et al, 2000). This consideration has therefore guided the selection of the case studies to reflect the representation of major ownership forms in the private sector under market socialism.

This article draws upon firm growth literature with a focus on the entrepreneurial process approach as the main framework underpinning this research. However, many sub-fields have developed as areas of study around the entrepreneurship process including the most popular resource-based view, the concept of business network to access and leverage resources, the study of knowledge as a specialised firm resource, and the role of entrepreneurial leadership with attention on individual entrepreneurs. Entrepreneurship is de facto a multidisciplinary subject thus a thorough understanding demands the acquisition of cross subject knowledge.

After introducing the gap in research my work addresses, this describes market socialism and the emergence of different types of ownership. I then move on discussing the theoretical foundations and conceptual framework underlying this research. The rationale for research design, data collection and illustration is discussed in the methodology. The remainder of this paper then explains the key findings and its theoretical and practical implications for managers. Finally, future research avenues are recommended.

Market Socialism

Capitalism takes many forms. Although its core dynamic, the accumulation of capital through investment and growth, is a global uniform feature, the specific processes whereby this is undertaken varies considerably from one empirical context to another. Thus, the United States' style 'free market' capitalism, as an accumulation process, possesses characteristics that are quiet different to those found in, say, European social democracies or post-communist central European societies (Carney, 2009; Boyer, 2005; Nee and Opper, 2010). The capital accumulation process as shaped by the actions and behaviour of economic agents – that is, institutions and individuals – is conditioned by a variety of socio-economic and political conditions and constraints which, themselves, are the outcome of historical legacies, cultures, conflicts, etc (North, 1990; Redding and Witt, 2007). So it is with China. The development of market socialism, while again being based upon the inherent logic of the accumulation process, is characterized by economic agents and institutions that are specific to this form of socio-economic and political organization (Zheng and Scase, 2012). China's hybrid economic system represents a type of political economy-based market socialism with both socialist and capitalist characteristics (Lichtenstein, 1992; Morphy et al, 1992; Naughton, 1994; Opper, 2001; Tsui and Carver, 2006; Moskow and Leminux, 2008). Such contextual settings are shaping different forms of enterprise ownership and their contrasting patterns of management process (Zheng and Scase, 2012; Kshetri, 2007; Yang, 2002; Nee, 1992).

Emergence of Different Types of Business Ventures

One of the most notable features of China's transition from a 'command socialist economy' to a 'state-controlled market economy' is the liberalization of market relations leading to rapid growth of entrepreneurial activities in those emergent private sectors (Opper, 2001; Yang, 2002). In order to develop a market economy, China's reform-minded policy makers have sought to realize the potential gains from furthering the transformation of enterprise ownership within political 'command' parameters (Wu, 2003; Steinfeld, 1998). By permitting the partial divestiture and privatization of a majority of state and cooperative-owned enterprises as part of the process of institutional development (Sheehan et al, 2000), the Communist Party has created a quasi-competitive market environment involving a variety of players (Peng et al, 2004; Liu and Garino, 2001; Jefferson et al, 2003; Liu and Woo, 2001; Child and Tse, 2001). What has emerged are three predominant types of enterprise ownership in private sector: (1) 'indigenous' entrepreneurial firms or privately-owned enterprises (POEs); (2) foreign joint ventures (FJV's); and (3) reformed cooperative-owned enterprises (COE's). This paper illustrates data from case studies of each of these distinctive types of economic enterprise.

Each of these types of enterprise ownership has distinctive characteristics that determine and reflect the peculiarities of Chinese market socialism as a socio-economic and political system, to the extent which it influences the goals and strategy of business ventures. Access to valuable resources, such as political power, licenses, information, finance etc. is determined by the nature of an enterprise, namely, the ownership (Yang, 2004). Tan (2002) argues that, within the context of transitional economies (China in particular), the type of ownership significantly shapes environment-strategy configuration, which suggests the prominent interrelationship between firm strategy-performance and ownership types. Quer et al (2007) indicates there is a paucity of empirical research on the relationship between ownership and entrepreneurial growth process factors such as opportunity, resource, entrepreneur, culture, leadership, learning and strategic choices (Wickham, 2006; Zahra et al, 2000). Unlike western enterprises that were born in a free capitalist market, Chinese enterprises grew out of socialist market transformation. Their growth process and strategy is significantly affected by the ownership structure and institutional arrangements. This research explores these issues on the basis of detailed case studies of three different forms of business ownership.

(1) Growth of Indigenous Chinese Entrepreneurs

Chinese entrepreneurs have emerged amongst these changing economic conditions and with the development of private enterprises since the 1990s. These new entrepreneurs have often moved from secure jobs in state-owned factories with hopes of making personal fortunes (Djankov et al, 2006). They have been keen to exploit market opportunities and have reacted skilfully to take advantage of ambiguous government policies, taxes, and regulations (Yang, 2004; Yang and Li, 2008). In short, they are "buccaneer capitalists" as Lenin would describe such expedient entrepreneurial activity. There are two types of entrepreneurs that emerged from different phases of market transition. The early-emerged entrepreneurs are often poorly educated and manage their businesses very informally, on a rule-of-thumb basis (Schlevogt, 2001). This is in contrast to those late emergent high-tech based business ventures where their owner entrepreneurs are often highly skilled and well educated with knowledge advantage (Chen et al, 2011; Gup and Guo, 2011). Consequently, they all operate similar to their western, small business counterparts (Holt, 1997). These indigenous entrepreneurs have shown impressive flexibility and dynamism in expanding their businesses in the absence of secure legal frameworks, and with very limited access to bank loans (Gregory and Tenev, 2001; Dorn, 2001; Djankov et al, 2006; He, 2009). They are characterized by a strong entrepreneurship orientation, the extensive use of business networks (Krug, 2004), the exploration of informal funding sources and organic management structure (Schlevogt, 2001; Yang, 2007). The privately owned enterprise detailed in the following case study demonstrates these distinctive characteristics.

(2) Impact of Foreign Joint Ventures

Foreign joint ventures are the outcome of foreign direct investment (FDI) in China. The government has granted a series of privileges and tax treatments to attract FDI since 1978, as consequence this has been a significant pushing force in the growth of China's market economy (Chung and Bruton, 2008). Some studies reveal that, at a large extent, the management practices of foreign joint venture have developed a hybrid model, combining characteristics of western management and Chinese cultural and human resource features in order to be adoptive in the local business environment (Cooke, 2004; Gamble, 2000; Melvin, 1997; Yan and Warner, 2001). Taylor's study (2001) points out that managers in foreign joint ventures seek to use a variety of local and 'universal' strategies and practices to control and utilize labour within the constraints of local institutional context. Cooke (2004) asserts that the managers who are delegated power and autonomy, play an important role in shaping management practices of foreign joint ventures. Their decisions and knowledge determine the performance of businesses (Legewie, 2002).

Davidson (1987) pinpoints the factors that determine foreign joint ventures' performance as organizational cultures, administrative structures and management philosophies. Child (1998a) has argued that wholly-owned foreign enterprises have relatively lower profitability when compared to Sino-foreign joint ventures. Knowledge of local governmental issues, culture and market, is critical to both indigenous firms and foreign investors. Foreign partnerships enable access to advanced knowledge and external resources that may be transformed into competitive advantages for small businesses in China (Basu and Yao, 2009). The research in this paper focuses on small-scale joint ventures that are run by overseas Chinese entrepreneurs. It aims to explore the impact of foreign-engaged ownership in shaping small business development.

(3) Restructuring of Collective-owned enterprises

Collective-owned enterprises in China are owned by employees but controlled by local authorities (Walder, 1995). They are regarded as a component of the state sector but secondary in scale to state-owned enterprises. They have ambiguous property ownership rights and remain peculiar off-shoots of the socialist planned economy. The reforms in the 1990s were attempts to resolve issues of whether they were owned by local authorities or by employees (Chen et al, 2008). Property, employee rights and productivity performance have been at the centre of ongoing debate with regard to collective ownership (Sanders and Chen, 2005; Yano and Shiraishi, 2004). Market reforms have changed the ownership form of traditional collective-owned enterprises as privatization has become incorporated within them (Peng, 2001). Since 2005, government reform policies have encouraged the transformation of COEs into limited liability privately-owned and shareholding companies (Wang and Han, 2008). Thus, they are a 'mixture' of private investment ventures and socialist-inspired cooperative organisations. According to a report from the All-China Federation of Industry & Commerce (ACFIC), approximately 20.3 percent of private enterprise grew their businesses through mergers with state-owned or collectively-owned enterprises in 2006. These types of mergers and acquisitions (M&A) form an important aspect of entrepreneurship practices under market socialism. Access to substantial resources, such as land, facilities, finance and skilled labour forces, are critical issues for private entrepreneurs (Yang, 2002). Hence, private enterprises are rather keen on tendering for such M&A as a means of low-cost expansion (Wang and Han, 2008). In this paper, one case of restructured COE is investigated to understand this particular phenomenon of emerging venture.

The Theoretical Foundations

Entrepreneurship Research and Firm Growth

Entrepreneurship has been described as complex; a contextual event and the outcome of many influences (Gartner et al, 1989). It has been defined in different ways, but essentially it emphasises a creative process of extracting social and economic values from the environment (Scott et al, 1997). Different researchers give prominence to a different blend of factors, but at its core are the ideas that the entrepreneurship process is opportunity driven, resource efficient and owner dependent. Storey (1994) postulates on the characteristics of growing entrepreneurial ventures which suggests that there are three integral components that drive small firm growth: characteristics of the entrepreneur, characteristics of the firm and characteristics of growth strategy. However, it is argued that although it may be possible to identify key success factors that affect the growth of small and medium-sized enterprises (SMEs), it is unlikely that a comprehensive model with predictive capability will emerge (Smallbone et al, 1995). Deakins and Freel (2006) comment that the inclusion of individual variables and organisation ownership factor in this characteristic approach is compelling and, in aggregate, they probably impact upon firms in much the way Storey envisages. Salancik and Pfeffer (1980:655) defines that "*ownership as a source of power can be used to either support or oppose management depending on how it is concentrated and used*." The firm's growth can be viewed as an attempt by owner entrepreneur and top managers to utilise the firm's resources (Penrose, 1960; Peng, 1997; Peng et al, 2005).

From a resource-based perspective, entrepreneurship can be regarded as a process of identification, acquisition and accumulation of resources to generate unique organisational capabilities as competitive advantage (Bergmann-Lichtenstein and Brush, 2001; Man et al, 2002). In a limited resource environment (such as emerging economies like China), knowledge and rationality are extremely complex (Long and Long, 1992; Guo and Guo, 2011), in which knowledge is highly interdependent on resource availability (Kodithuwakku and Rosa, 2002). Resource restraint in an entrepreneurial setting is not just a matter of financial or physical resources but includes the capability to make the frequent decisions about which opportunities are worth pursuing among various strategic choices. The owner entrepreneur as the 'prime mover of the process' (Bhave, 1994) constantly provides direction, leadership and enthusiasm to keep the business going, thus their time and capability are often as critical as scarce as money (Ravasi and Turati, 2005). Gupata et al (2004) point out that value-based entrepreneurial leadership emphasises building commitment through active, creative and discovery-driven engagement based on the opportunities presented by the environment (eg customers, product opportunities etc) for the purpose of, achieving results and wealth creation. Despite the varied range of factors being studied in entrepreneurial processes, the question that remains unclear is what are the specific factors that may determine the strategy choice. McKelvie and Wiklund (2010) also suggest that there should be more research to determine what specific strategy leads to what outcomes, rather than discussing strategies in general. China's economy is driven by the growth of its manufacturing sector, but most Chinese firms are located in the low value chain of the industry. This raises many questions such as does this mean that the low value added strategy will handicap firm growth or result in less sustainable growth mode? Also, how do we explain the burgeoning SMEs in the low value chain industry sector and how do such firms gain their competitive advantage? Empirical evidence on the development of specific growth modes and the formulation of capabilities serving different strategy choices are inconclusive. One notion addresses the importance of knowledge management and learning capabilities as being the key for the ongoing development of new resources and being a source of sustainable competencies (Starkey et al, 2004; Guo and Guo, 2011; Carayannis et al, 2006). Some studies focus on the critical role of leadership that provides direction and develops new resources to enabling strategy choice in the entrepreneurial management process (Ng and Thorpe, 2010; Diamante and London, 2002), while others emphasize that structural and strategic formulation of internal business management processes determine the outcome of the entrepreneurship process (Lyles et al, 1993; Ireland et al, 2001; Hitt et al, 2001).

The Entrepreneurial Process Model

The entrepreneurial process is one of the core aspects of entrepreneurship research. Wickham (2006) advocates an entrepreneurship process model encompassing four interacting contingencies in the process of entrepreneurial value creation which are; the entrepreneur, a market opportunity, a business organisation and the utilization of resources (also see Bhave, 1994 as the foundation of this concept). Wickham's work emphasizes the interactive effect of these four dimensions in a dynamic process that "success fuels success" and failure feedbacks into the learning of success (see Figure 2.1). It posits that the entrepreneurial organisation should be a learning organisation. That is, it should reflect on and learn from its success and failure in order to modify future responses in light of experience and knowledge acquisition. Leadership and direction from entrepreneurs is the core of the organisation processes. It uses a resource-based view that argues capability is developed from how organisations access and manage resources. This model has illustrated key aspects of entrepreneurship process that have been discussed in this field of literature, such as opportunity, entrepreneur, leadership, resources, and learning; however, to a lesser extent, the model does not provide an answer to the contextual and developmental effect on these key contingencies in the process. Nonetheless, this framework defines a recognised scope of what is involved in the business venture process and can act as an analytical tool for considering the question of how these contingencies are developed and interact over time. Even Wickham (2006:229) suggests that in support of these theories, further research should use case studies of each type of business venture to identify how this process differs in each ownership form. Therefore my research has reacted to this call by undertaking a set of investigative case studies, to explore the dynamics of the entrepreneurship process, over a five-year period between 2005 to 2010.

Methodology

This research aims to explore how small firms evolve over time to achieve growth outcomes. Through literature review, the empirical evidence is inconclusive to explain this phenomenon. The dynamics of the entrepreneurial process involve different, interrelated variables (e.g. ownership, hybrid growth modes, strategic and managerial resources, opportunity and entrepreneurs' intensions), however, the outcome of entrepreneurial process is not the result of a single factor. Thus it requires a systematic approach to explore these issues embedded in the internal organisational process to gain a better understanding of how small businesses evolve over time. I am interested, in particular, in exploring what key variables and their interrelationships may facilitate the outcome, either success or failure. This requires undertaking a research investigation over a prolonged timeline rather than one-point time. With this purpose, in-depth longitudinal case studies are designed for developing entrepreneurship process theory to provide a qualitative analysis of the question of 'what' and 'how' (Leitch et al, 2010; McKelvie and Wiklund, 2010; Stake, 1995; Gomm et al, 2000).

The Selection of Case Companies

Case studies of three small to medium size businesses were selected from the textile industry because it is highly competitive sector at the frontier of economic reforms in China (CTIA, 2003). The emergence of a private sector in this industry is most significant and fast growing; as a consequence, management practices are more market-focused (Wang, 2001). In this sector, the number of privately-owned entrepreneurial firms now makes up to 45.8%, and foreign joint ventures 43.5%, remaining only 10.7% for state- and collectively-owned enterprises (CTIA, 2004). Thus, the selected three major forms of ownership are typical and representative.

Data collection

A total of thirty-two open-ended interviews were undertaken with key stakeholders of the firms over a period of five years together with a detailed analysis of company documents and decision-making records (See Table 1.1). In addition, a number of the government officials in the relevant agencies and ministries were interviewed to explore policy-making strategies in relation to these enterprises. Lawyers and accountants were also interviewed to verify the accuracy of financial figures and legal matters. The collection of data followed the 'triangulation principle' whereby multiple sources of data were used and explicit links maintained among these different sources to develop a chain of reinforcing consistent evidence (Yin, 2003). For example, financial figures were obtained from four sources: interviewees, company archives, public reports, the National Taxation Bureau & Local Taxation Bureau, and then compared to check for any possible discrepancies and inconsistencies. Thus, three types of information were used for the purposes of validity: (1) key informants selected from the case companies; (2) officials from government agencies; and (3) professional experts such as independent accountants and solicitors. The cases were chosen form the textile industry since this has been at the forefront of government structural reforms since the 1990s. Three case studies were selected for comparison, because of their similarity in size, age, sector, and distinctiveness in ownership (see Table 1.2). In respect of their historical growth rate, the foreign-owned joint venture has more than twice the revenue as well as a much higher average annual growth rate of 77.5% compared with the entrepreneurial firm's rate of 41.8% between 2001-2005 (see Table 1.2).

Data analysis

Throughout three times of fieldwork, all interviews and relevant data gathered were first organised into archives under each case study unit analysis. This phase of organising data had resulted a few revisits and additional conversations arranged to ensure key information and cross-check evidence complete. At the stage of analysis, the qualitative data was massive with over 50 digital recordings, along with several boxes of documents, I listened to the interviews repeatedly one by one and read through all documents from each case organization. I then categorized them in relevant subjects in accordance with how I had specified the operational measure in relation to the Wickham's framework. By reading and listening to the data, I recorded each time a particular idea or concept was mentioned or explained, and referenced these according to the structured dimensions of the conceptual framework. Then, I grouped these responses together describing the same idea or process and examining everything that I put in the same category. In other words, the data are organized to describe the ownership, opportunity, resources, structure, strategy, management style, leadership, culture, learning and particular outcome (see Table 1.3 for the summary of data analysis) for each of the three case study organizations. This enabled of establishing the characteristics profile of each case study unit and compared them for differences. In addition to this, a separate table is developed to demonstrate the changes in different period of time that were recorded in each time of revisit (2005, 2009, 2010) (see Table 1.4 for detail). The propositions were developed based on comparing the differences, key events and outcomes through two means – independent case study unit analysis and cross-case analysis (see Yin, 2003).

Insert Table 1.1 about here.
Insert Table 1.2 about here.

Wickham's entrepreneurial process model (figure 2.1) is used as an analytical framework to establish key dimensions and scope of data collection in a systematic manner.

- *Ownership*: privately-owned, foreign-engaged joint venture, collectively-owned trans-ownership
- *Opportunity*: to be examined by the entrepreneur's decision, market gap and strategic position of the firm
- *Resources*: to focus on financial, networking, human capital, intellectual, both tangible and intangible resources.
- *Organisation processes*: include key factors of structure, strategy, management style & leadership, culture.
- *Learning*: to be assessed by knowledge accumulation methods, training and skills development programmes.

- *Outcomes* of entrepreneurial process will be measured by profitability for growth or failure.

Data Discussion:

The comparison between the three types of business venture is summarized as in Table 1.3.

Insert Table 1.3 about here.

<u>Opportunity</u>

China's economic reforms have granted legitimacy to private businesses and foreign investment. All three types of business ventures are based on market, institutional and political change-led opportunities. The case of a collective-owned company, is the result of government policy initiatives concerning privatization. A foreign private entrepreneur involved in mergers, owns market oriented networks of overseas buyers and distributors, but lacks physical resources such as manufacturing facilities and production equipment to increase its production capacity. Thus this mode of expansion is attractive to private entrepreneurs (either local or foreign) as an opportunity for the expansion that brings a more diverse set of economies of scale.

Case 1. Dali Cashmere Company was created due to a market change-led opportunity. The indigenous entrepreneur who had considerable experience of cashmere products identified a gap between high demand of cashmere product and insufficient supply on the market, and believed that he could make a lucrative business through his suppliers network. China's WTO accession and liberalization policy in 2000s further provided opportunity for this entrepreneur to enter overseas markets which provided further incentives to engage in expanding his production capacity.

In the textile industry, the majority of domestic firms are crowded in the low end of supply chain. In the branded clothing market, the demand for branded goods in women's designer clothes is a growth area in China. As 'The Development Report of Clothing Industry' (2005) indicates, the total value of luxury brand goods market in China is estimated to be worth US$ 2 billion, which accounts for 3% of the world total and ranks China as the third biggest country for luxury goods. The same report predicts that the luxury goods market in China will continuously grow to move China into the second largest country for luxury good in the world over the next 10 years. The Case 2 Sunfed studied in this research was established to take advantage of this emerging market gap. SunFed (Case 2) positioned itself at the "high end" of the fashion product market and tailored its branded products to serve this niche. Its access to foreign capital has proven useful for building its brand strategy. This venture puts its brand management at the heart of marketing and business strategy.

Resources

In line with resource-based theory (Grant, 2005), a firm's strategic capability is underpinned by the resources available to an organisation. From a strategic perspective an organisation's resources include both those that are owned by the organisation and those that can be accessed to support its strategies. These can be classified as physical resources (e.g. machines, buildings or production capacity), human resources (e.g. knowledge, skills of people and adaptability), financial resources (e.g. capital, cash, shareholders and bankers) and intellectual capital (e.g. patents, brand, customer database and partner relationship). Amongst these, human, intellectual and reputational assets are more often difficult to imitate, and so can be the source of competitive advantage (Haberberg and Rieple, 2001).

In the privately-owned firm (Case 1), the owner entrepreneur's experience, personal connections and networks played a key role in start-up phase which not only enabled him to identify the opportunity for cashmere products but also enabled him to execute the plan. Due to institutional constraint that are placed on private firms in China, he had very limited access to bank loans and venture capital, so his firm grew organically in the first ten years from 1997 to 2007. Following the change of government policy in the state sector, thee entrepreneur acquired a state-owned manufacturing firm to engage in high growth phase in 2008 to 2009. Although the strategic focus of this growth objective was on advancing production technology and obtaining advantage of economics of scale, this growth choice seemed to align with its low value added product strategy as it relied on high volume of sales and production capacity to be profitable as well as to increase the likelihood of survival. The key resources in this type of firm are based on physical and human resources. It reflects excessive dependence on individual entrepreneur's vision, ambition and capability.

In comparison, the Case 3, trans-ownership collective company adopted the similar strategy of low value added mass production. Although the case 3 had the advantage of access to physical and financial resources through the merger with the collective company, it still failed after five years of merger. This result revealed that management capability is significantly affected by ownership structure in which unsound partnerships with contradictory values could lead to management failure. It demonstrates that such management factors in the growth process have greater effect than resource and strategy factors.

Case 2 the foreign joint venture (SunFed) had access to foreign capital and skilled personnel in the start-up phase which laid the ground for the firm to engage in a high value product-focused strategy. In alignment with this strategic choice, its growth has been navigated through the development of intellectual capital such as brand, knowledge learning ability, human capital and culture in order to secure the high value adding and enhance brand building. The well-designed learning process has facilitated knowledge accumulation surrounding brand management and marketing communications; in consequence, it further developed its unique firm-level capability and competitive advantage based on the integration of brand value and human capital.

One shared common characteristic in all three case companies is that all entrepreneurs utilized personal connections and networks (Guanxi) to achieve particular objectives and to access the necessary resources (financial and social). However, it is noted in the case studies, that the degree of dependence on guanxi differs among case studies by how entrepreneurs set their ethical standards and whether they believe it should be operated in legitimate or non-legitimate ways. The standard of morality is likely to influence the use of 'guanxi' as evidence in the three cases demonstrates that the Case 2 (foreign joint venture) operates with a more legitimate approach compared to Case 1 (the local entrepreneurial) and Case 3 (trans-ownership firms). For example, the use of bribery was fully utilized by Case 3 (trans-ownership firm) to exploit resources; and was accepted by Case 1 (indigenous entrepreneurial company) as inevitable, but in contrast, it was objected to by Case 2 (foreign joint venture)c as being unethical. The decrease of guanxi dependence emerges as the creation of a market economy imposes "standardizing" global similarities in business structures and processes that cut across national cultures. Clearly, the findings from this small sample of three firms would require further empirical evidence to justify the existence of such a trend.

Organisation

Strategy: In this research, the dimension for strategy, as the basis for data collection, was defined to refer to each company's orientation to growth.

The motivations that drive these three case study companies, the means by which they expand and the mind-sets of those who manage their operations differ due to their different ownership forms. Case 2 the joint venture has imposed western management practices and implemented explicit, rational strategic planning tools, a code of business ethics and explicit concept for market positioning with a consequent high value product development. It has given priority to developing brand equity as the core of the company's marketing strategy.

Case 1 the owner-entrepreneur firm and Case 3 trans-ownership company both adopted an approach of low-value and low-cost-based manufacturing strategy, but chose contrasting approaches. The entrepreneurial firm decided to reduce costs by increased use of technology and automatic computer systems thereby reducing the size of low-skilled labour whereas, in contrast, the collective-owned firm focused much to expand economies of scale in production and increase the size of low-skilled labour employed. Although they both broadened the product portfolio to increase the variety of product offerings, their cost-control approaches differ significantly. Case 1 owner entrepreneur acquired a spinning mill factory to include cashmere thread production into its product portfolio. This expansion not only broadened its market offerings into vertical supply chain but, more importantly it enabled the firm to reduce the cost of semi-raw material under self-production control. In contrast, Case 3 trans-ownership) concentrated on a 'cost cutting' approach to reduce the operational cost, which resulted in unethical exploitation of the employees. The attempt to pursue larger orders led to undercutting profit margins and further pushing down the cost minimization in the company (increasing its fragility). Case 3 was oriented to grow in physical resources while at the same time lowering production costs with the marketing strategy of providing 'reasonable' quality and price for the high-volume retail/wholesale market.

Structure: In this research, the dimension for structure is defined in terms of the existence of organizational charts and the formal specification of roles, responsibilities and decision-making processes. The three cases studied demonstrate that the patterns of organisational structure are also determined by type of ownership and strategic choice.

The organizational structure of Case 1 owner-entrepreneur firm, is almost non-existent. It is characterised as owner-dependence management (see Figure 2.2). There are no documents relating to HR policies, management procedures, or company regulations. There are little job descriptions and no clear definition of duties and responsibilities. Employees take multiple roles whenever the company needs to perform them. Job specialization is relatively low compared to Case 2 the foreign-owned joint venture. Although the entrepreneurial firm has created cashmere fashion products, there is no professional designer for product design but rather 'copycats' of other top design brands. There is complete organisational dependency upon the owner who is at the centre of the 'spider's web' (Handy, 1993). Informality and high flexibility are the major characteristics of this enterprise.

Insert Figure 2.2 about here.

Case 2 the foreign joint venture is characterized by a market-focused structure to meet its brand-focused strategy, featured by operational flexibility in its marketing activities (see Figure 2.3). Such a relatively "open" structure facilitates personal development embedded with a high level of concern to promote entrepreneurship and creativity. All operations and management of the company focus on customers' needs and support services. Working relationships in the marketing function are informal and teamwork-based. Although authority and control is exercised by the General Manager, the marketing division has a flat hierarchy with considerable management autonomy compared to other departments so it can react quickly to external changes and customers' needs. The Marketing Manager of Case 2 comments;

"*As marketing manager, I am fully delegated to make own decisions in management process over marketing activities within the budget. The top managers expect to see the results, my plans and solutions but they don't like me to constantly asking them on how things should be done. Marketing is the main activity of the company. The product has priority in coordination, an absolute priority, and other departments must collaborate with product marketing."*

Insert Figure 2.3 about here.

Case 3 the collective-owned company is characterised with two coexisting but conflicting ownership, private owner and collective ownership representatives – local government appointed general managers. The merger created mutual benefits and reciprocal resources for both parties, however, the private owner was prone to encroaching upon the collective property ownership and this gave birth to increasing tensions and disputes in management, as demonstrated in this case study. To sum up structural relationship, a barbell structure illustrates in Figure 2.4 - a split weight emphasis in two functions of the organisation; one on marketing & trading and the other on manufacturing. This 'barbell' structure reveals separate entrenchments of dual type ownership – private owners and collective ownership governed by local authorities. It may suggest that full privatization would be a better choice.

Insert Figure 2.4 about here.

In this structure of Case 3, the private owner's business provides orders and contracts to collectively controlled manufacturing arm in which finance control is highly utilized in the management process. There is a centralised accounts office for finance and production planning to which all divisions must report their expenditures to the private owner for approval. Such direct control over finance has raised tension and conflicts between shareholders. The Manager of Operations of Case 3 comments:

"*We plan everything needed in the company and apply for authorization on every single expense. We are also required to minimise all our costs while to increase production. Strict cost control and poor work conditions are the major problems in our manufactory*."

Management and Leadership**:** In this research, the dimension for management is measured by the leadership style in each organization.

Leadership is vital in shaping management structures, as it is crucial to directing enterprises for success or failure (Peters and Waterman, 1982). Case 2 the foreign joint venture demonstrates a delegating leadership style, providing both high supportive behaviour and guidance so that their employees can carry out tasks by themselves. Middle managers with autonomy delegation are expected to take decisions and determine procedures in ways appropriate to achieve their final objectives. They often feel the high pressure of such autonomy as it requires innovative ideas and strong decision making ability to be productive. In Case 2, the president and general manager created a mixed leadership style – democratic, supportive and directive (Hersey et al, 2000).

As the Personnel Manager comments:

> "*The General Manager exerts great influence on the staff in terms of culture, values, management concepts and ways of doing things. She is very authoritative in insisting on her ways of doing things, but she also teaches us to do new things. We respect her as she is inspirational and has profound knowledge and experience.*"

The Manager of IT comments:

> "*Leadership is strong. Our president is a democratic leader, always welcomes new ideas and different opinions. He has very cutting-edge concepts and vision. He represents the American style of management – open and creative.*"

By contrast, the owner of the entrepreneurial enterprise – Case 1, has a very directive style, resulting in a high degree of one-to-one involvement with his employees. He intervenes in every procedure of work and closely supervises the tasks assigned to his employees. He exercises total control over his staff and centralizes all final decisions. However, he addresses family values to bind employees together. He is generous in his care of his employees, which psychologically commits his employees to do things gratis without charge. As the marketing manager says:

> "*We work together as a family. He is very prompt and decisive. He cares for us and participate with us in our work.*"

The Vice General manager comments,

> "*Mr Zhu listens every report and supervises every step of work progress. He believes the procedures must be done right before the right result turns up.*"

This entrepreneur of Case 1 is the determining factor for the success of this company. His explicit leadership style is to influence people by heart and affection, not by rules. This informal leadership is the basis for the exercise of his unassailable authority.

By contrast, the management style and leadership in Case 3 trans-ownership firm combines the dictatorship exploitation of the private owner, and the bureaucracy and dogmas of state management. It makes the worst case in terms of employment working conditions and treatment in comparison with the other two case studies – Case 1 indigenous entrepreneurial firm and Case 2 foreign joint-venture. As such it has none of the positive features of state management (e.g. employee welfare and job security) nor the ethics and flexibility of entrepreneurial management. Instead, it emphasises dictatorship, authority and bureaucracy. Capital accumulation through ruthless cost minimisation is most strongly demonstrated in this form of business venture (Case 3). It is evidenced in this case that private ownership and collective ownership in a joint form gives rise to ruthless capitalist exploitation and the absence of business ethics. Marketing Manager of Case 3, Ms Gong comments;

> "*Well, actually we can't express our own opinions as that would offend the president's authority. So we already get used to following concordantly instead of thinking independently… When we have better performance, we won't receive any material reward and only verbal praise. But when there is any mistake, a penalty will be given.*"

The Manager of the Operations Department of Case 3 says:

> "*Less staff and more work is our situation. We often have to work over time. Two Sundays off in each month is the pattern in Liming-Anna and we get no extra pay for extra hours. Working longer hours becomes our obligation.* "

In Case 3, the contradictory purposes of the two owner parties and their entrenched control over resources seem to be the reasons for this outcome. The private owner regarded the collective assets as resources to be exploitable and usurped. Therefore, direct control is often adopted by the private owner while intervention of state governance frequently was to protect the collective interests. Implicit or explicit hostility emerged between the private owner and the representatives of collective ownership. This joint ownership structure generated unsolvable management conflicts. The only solution seems to be either sole private-ownership or full state-controlled ownership.

Culture: In this research, culture is assessed by reference to values and management philosophy.

To aid this cultural analysis I contrast each type of business venture studied by discussing their underlying guiding concepts, values and beliefs. Case 2 the joint venture has established clear objectives, which are shared by all employees. It is the pursuit of developing a well-known brand in international markets. It advocates that employees should '*excel themselves to be creative*'. Management has adopted Western cultural values with the absorption of Western management philosophy and ethics. For example, there is an emphasis on learning taken from western advanced management which is promoted amongst employees and deeply embedded in the company systems. It addresses achievement-oriented, self-managed and result-driven values.

Every departmental manager that I interviewed in Case 2 expressed the wish to acquire knowledge as part of their daily work routines. Intensive formal training programs are embedded into the organizational structure, systems and strategy. Knowledge is highly respected in this company, and creativity and innovation in marketing and technology is a key focus of employee training. This is the key company culture value and creates an environment which facilitates knowledge accumulation and further develops capabilities, encourages creativity and promotes innovation amongst staff. Although it provides a precondition for increasing market performance and positioning the firm on the cutting edge of brand management, it also presents challenges relating to the management of both highly skilled and semi-autonomus workers . As Marketing Manager of Case 2, Larry comments:

> "*The company just tell you the objectives, the processes and decisions are left to us to determine. Although the company has trained us so much about new management concepts, we have to digest them by time and through practice. We feel the company should provide us with more support in the process… sometimes too much autonomy can be pressure.*"

Comparatively, the management philosophies of Case 1 the entrepreneurial firm focus on the importance of conventional Chinese culture values, such as compliance, nepotism values and harmony. The owner entrepreneur attempts to ensure his employees are cooperative and respect his authority. Furthermore, this family culture also enforces the informality of the business and reinforces his employees' dependency on him (see Goffee and Scase, 1995). As the owner entrepreneur of Case 1 emphasizes:

> "*I have created this organization as a family so that everyone is part of it and bounded together by family values and working in harmony… I am the one who makes all the decisions. I prefer sole ownership as I do not like others to be involved in the decision-making and telling me how to run my business.*"

Case 3 the trans-ownership company embodies the hybridization of contradictory cultural values: capitalist profit-driven materialism, collectivism and socialist ideals. As a consequence, inconsistent values, beliefs and organisational cultures complicate the management style and create tensions among owners and employees. Market transition challenges conventional ideology and generates confusion in values and beliefs, particularly for those who are deeply involved in planning mechanisms, such as collective and state-owned enterprises. Although the culture in Case 3 is mixed with both socialist and capitalist values, as market reforms deepen, the capitalism values are becoming dominant in driving the enterprise. This Case 3, with the collision of values and styles, has led to the breaking point that the contradictory interests of shareholders and hostile attitudes in management control eventually caused the collapse of management in 2009.

Learning

An organisation is regarded as an accumulation of knowledge and learning (Haberberg and Rieple, 2001; Starkey et al, 2004). Through this case study investigation I examine how different types of entrepreneurial venture learn, and discuss the critical factors which are likely to impact on the learning process.

Case 1 the entrepreneurial firm, emphasizes experience-oriented and practice-based learning. In line with this philosophy, training is often designed to learn on the site. As the Vice-General Manager comments:

> "*Mr. Zhu always takes us to different large companies for the purpose of learning and exchange of ideas. We have learnt about their advanced management philosophy, efficient methods, various new styles in design, production techniques and even how they decorate the outside of retail stores. These field visits enable us to know where we are and how much difference between us and those modern corporations. This motivates us to think of what can be applied."*

The entrepreneur himself (Case 1) is a reflective type of learner. He often reassesses what he has done and always thinks about what he could improve. He has been consciously trying to improve himself based on reflection and being open minded to new things. However, he does not advocate formal training because he believes that it is costly and useless. In this case, the owner's philosophy and behaviour determine the organisational processes and cultural norms. As the owner entrepreneur says:

> "*This organisation is like the human body. This organism has only one brain which is me, and other employees are the different organs of this body. These organs work together to create the metabolism to be alive. In this sense, every part is important and need to play its own function. They must stay in their own roles and listen to the commands coming from the brain. For example, the managers work as my two hands and they have to do what the brain tells them to do."*

In contrast to Case 1 Dali Cashmere, Case 2 the foreign-owned joint venture has clearly defined HR strategies and personal development programmes. A knowledge-oriented and training-based learning system is well established and constant learning is incumbent upon all employees in Case 2. However, this learning system seems to create tensions between the demand for creativity and the skills of key staff. Furthermore, it places increasing pressure on constantly advancing performance evaluation, appraisal and reward mechanisms to match the company's high learning demands. Although more intense education and training is designed to enhance the skills development, the employee's capacity to digest such knowledge is often restricted. As the President of Case 2 comments:

> "*We try to build up a high quality team with proper capability through training, as their knowledge and creativity is crucial for successful marketing*

communications to our customers, but middle management execution ability is always the challenge for us."

The marketing manager (Case 2) also states: "*This company has very advanced management concepts and philosophies which encourage us to learn new things that we never looked into before. However, much has yet to be done. For example, a complete motivation system to retain highly skilled talents is in demand; responsibilities that managers carry out need to relate to specified rewards which this reward system is still vague.*"

The CEO and General Manager of Case 2 have excellent management qualifications and promote a strong training and learning culture. They have demonstrated a good capability for converting management concepts and theories into practice which they test in the Chinese market. This is a major strength of this company. In order to enhance the accumulation of knowledge, they have adopted the implementation of an ERP (Enterprise Resource Planning) system. This IT solution aims to maximise the use of all the resources in an organisation and facilitate the learning process. Figure 2.5 demonstrates, in a more precise level, how Case 2 this foreign joint-venture transform their advanced management concepts into practice based on an iterative process involving local managers carrying out ideas from training to implementation. The most challenging process concerns applying the marketing concepts (step 4) to operational systems (step 5) and testing the response from customers and market (step 5, 6), as key informants addressed in their interviews. This process is an iterative and adoptive dynamic. These three steps of learning cycle (4,5,6) demand individual inputs and justification/improvisation at operational level. Since the middle managers are empowered with high degree of autonomy to make decisions and generate new ideas for effective output, this has double effect on the staff. Tensions and pressures are often created at work where the managers feel they need more guidance and support while the top management continuously demand high expectations on individual performance and productivity. It is proved that the staff turnover, among middle managers in particular, is high. The senior members of Case 2 has expressed their anxiety over recruitment of highly-skilled employees. The shortage of talent is claimed to be the reason that has slowed down their marketing development and further growth in Case 2.

Insert Figure 2.5 about here.

The leadership and learning culture in Case 2 are unique and potent. Compared with the other two case studies (Case 1 & 3) focusing on low-value added product strategy, Case 2 the foreign joint venture has a much higher priority in knowledge management, aligning with its high value product-focused strategy. It reflects how this foreign joint venture operates on the basis of very different principles (derived from its US co-ownership and different educational background).

In Case 3 the trans-ownership company, training is designed to focus on market incentives and customer-focused management systems. Due to the conflicting values between socialist ideology and capitalist values, a series of workshops have been implemented to close the value gap. For example, one themed training programme titled 'Market-related-wages' is used to educate the employees relating their pay to market demand, emphasized '*no orders/sales and no pay*' '*customer is the God'*. However, it seems to have resulted in even higher job insecurity and a hostile attitude from the employees, especially when work conditions deteriate and welfare support is eliminated. More critically, individual creativity and advancing skills of key management staff is not prioritized at all in Case 3.

Research Proposition Development & Theoretical implications:

The entrepreneurial process is one of the core aspects of entrepreneurial research. Based on Wickham's entrepreneurial process model (2006), this research extends the contingency variables to the assessment of ownership with growth process and management factors (also see Bhave, 1994). Following the pilot study in 2005 that first identified the four most prominent factors relevant to firm's growth and competitiveness, namely, the impact of ownership, entrepreneur's leadership, learning capability, resources management and growth strategies. The impact of ownership on organisational characteristics is particularly prominent in China's transitional economy since the type of ownership determines the access to specific kind of resources such as finance, tax benefits or political capital (Proposition 1). During the second research investigation, I discovered there had been significant changes in strategy, resources and knowledge acquisition (see Table 1.4 for detail) and it appeared that the momentum of firm growth was built upon a hybridization of strategies with the deployment of specific resources at different phases of growth process. In this phase of development, leadership and effective learning seem to play a critical role in developing new resources and deciding the direction and policies for the next move (Proposition 2). The Case 1 in low-value position attempted to build up competitive advantage through vertical diversification strategy for new products and markets; whereas, in contrast, the Case 2 in high-value chain developed franchising strategy to concentrate on adding brand value. Case 2, the foreign joint venture previously suffered high staff turnover and shortage of highly skilled talent to develop critical marketing activities. It seems that case 2 management team has made turn around strategy to resolve the problem as a 'franchising' mode of growth is aimed at utilising franchisees' resources and capabilities to develop new market shares and add brand value. The third visit to China brought surprising findings concerning the changing growth rate in two of the firms studied as Case 1 the indigenous entrepreneurial firm was catching up with Case 2 foreign joint venture which had enjoyed previously a higher growth rate and profit margin. My first assumption during the pilot investigation was 'inevitable decline and bottleneck of growth in the indigenous entrepreneurial firm's case study (POE, Case 1) due to its vulnerability in relation to low value profit margins and its failure to deliver its brand marketing. Surprisingly, the entrepreneurial firm (Case 1) did not decline as I predicted but instead it engaged in high growth through an acquisition and vertical integration strategy. Subsequently, it successfully opened new markets and new product portfolios to trade off the vulnerability despite the high risk associated with this strategy. Between 2005 and 2010, Case 1 the indigenous firm had transformed itself from a labour intensive operation to a high technology equipped manufacturing firm with significantly lower labour costs. This strategic move has enabled the company to increase its production capacity six times, in synchronism with a 50% reduction of low skilled employees. The case studies have demonstrated that broadening product portfolio and increased production capacity had improved this low value firms' competitiveness, giving rise to further growth (Proposition 3). It is noted that the owner entrepreneurial vision and perception of external environment change may have played a role in leading such changes. These findings may be summarised and presented in the following set of propositions which are intended to aid studying and reflection of the critical factors, strategies and their relationship to the growth process.

> **Proposition (1)** The type of ownership is a key contingent factor that shapes management structure and moderates particular entrepreneurial outcomes.
>
> **Proposition (2)** Leadership and knowledge accumulation capabilities are critical factors in a company's learning process, significantly affecting strategic choices of high or low value product strategy.
>
> **Proposition (3)** The broadening of product portfolio strategy with increased production capacity will improve survival chances and increase the likelihood of a small firm's growth.

This research has shown how different forms of business venture ownership shape different growth processes and strategies in China's transitional economy (see Tan, 2002; Peng et al, 2004). It highlights the interrelationship between key contingencies in the entrepreneurial process that are likely to lead to different outcomes. It suggests a possible means of differentiating amongst alternative forms of organisation, structures and systems of management that may influence entrepreneurial outcomes.

Implications for Managers:

Though this empirical research is conducted in China, there are some generic issues that hold true for any small entrepreneurial businesses, irrespective of the context. For example, whether the company is located in a capitalist or socialist country, there is frequently an excessive over-dependency upon the energy, innovative risk-taking ability and the capability of the owner manager to obtain external resources. These qualities frequently shape the extent to which a business will survive and the manner in which it can grow. Major literature often offers a resource-based view that contends that a lack of internal resources and limited access to external resources are the determining factor to success and failure in small firms (Lockett et al, 2009). However, top managers' decision-making and shareholders relationship also have critical impact on the continuity of business venture regardless the availability of resources.

Becoming a learning organisation has been a strong advocacy in management practice. Networking strategy is prioritised externally through partnerships and strategic alliances which entrepreneurs can draw on reciprocal expertise, knowledge and technology to compensate for their limited internal resources. Nevertheless, this empirical case investigation suggests that small businesses should focus upon developing internal knowledge management systems including investing in staff training and nurturing a learning culture as this affects organisational capabilities in accumulating and retaining knowledge gained from the external networks. A balance between the external and internal knowledge acquisition should be maintained as the latter is often neglected by the entrepreneurs/owner managers.

Most SMEs place themselves in labour-intensive industries to undertake a low-cost advantage (Li and Qian, 2009), which may make them vulnerable to external changes. The case study has illustrated that by means of increasing product portfolio and advancing production technology it can improve small firms' survival chances and overcome the vulnerability of low value-added product strategy. However, managers need to be aware of the conditions required for the choice of diversification strategy as it needs not only market knowledge but specialised staff skills and high management competency. This suggests that managers and entrepreneurs must possess the skills with an open-mind to constant learning of new knowledge to help the business in an appropriate way. A well-designed integration and diversification strategy may enhance a firm' competitiveness and profitability (Campbell, 1995; Chatterjee et al. 1992; Romme, 1990). Such managerial implications would help entrepreneurs and managers to appropriately formulate their strategic choices with relevant understanding of conditions and processes required. To understand how organisations learn and to be able to apply this to maintain a sustainable competitive advantage in small businesses is likely to facilitate the achievement of a successful growth outcome.

Conclusions

In this paper I have presented a comparison of three case study companies that demonstrates contrasting management models and growth strategies are directly related to their ownership and key organisational factors. The indigenous entrepreneurial firm (Case 1) appears to be dependent upon the energies and capabilities of the owner. It has broken through growth bottlenecking by adopting a vertical integration strategy to control cost (Carlton, 1979; Chatterjee et al, 1992) and achieved efficiency in resource utilization (Quirmbach, 1986). Vertical integration can be seen as a strategic move to offset the vulnerability of low value-added products, aiming to enhance the profitability and chances of survival (Chatterjee et al, 1992; Romme, 1990). Effective employee learning was undertaken in the joint venture (Case 2), which provided the basis for brand-focused strategy and long-term development. The joint venture represents a more effective mode for organisational learning for Chinese firms. But it also demonstrated that (at least in this company) there has been little "localization" of western practices. Foreign joint ownership benefits from access to knowledge, finance and intellectual capital to facilitate its high value strategy and competitiveness. This also shapes the behaviour of its managers in the organisation, who increasingly work to formulate organisational processes in terms of its strategy, marketing and product development. As a consequence, innovation and entrepreneurship are built into the culture and structure of the business in ways in which they are not in the indigenous entrepreneur's company. These qualities do exist in the entrepreneurial firm (Case 1) but they are solely dependent upon the skills and personality of the owner manager, making them precarious. Effective learning and knowledge acquisition has enabled the foreign joint venture firm (Case 2) to continuously invest in brand added value. The recent adoption of a franchising strategy reflects their developmental process from brand building, consolidation and now to brand expansion. As Grant (2005) addresses, the conditions for different strategic choice are critical for the 'fit' and achieving the goal.

Although Case 3 the trans-ownership venture (COE) adopted a similar low-value product strategy as Case 1 the entrepreneurial firm (POE), they differentiate in growth orientations. COE emphasizes the cost cutting through cheap labour and intensive production while, in contrast, POE's low cost strategy is driven by production technology advancement and increased sale through product diversification and vertical integration of new markets. COE's growth orientation reflects market myopia that is more vulnerable to cheaper competitors who are always trying to undercut the price. Its ultimate failure has also uncovered its most fatal flaw, a cultural and management fracture in its ownership structure. Its irredeemable management conflicts and contradictory shareholder values led to the termination of this venture regardless of the availability of relevant resources (e.g. manufactory facilities, finance, labour, business networks). The empirical evidence on different growth modes and associated conditions provides a meaningful understanding of the dynamics of growth process in small businesses by reference to different forms of ownership. It opens more questions to the continuous development of firm growth literature. It addresses the importance of understanding the business process for entrepreneurs and managers to avoid influencing it in ways that damage its outcome and performance.

Further research and limitations

The propositions give rise to different research topics and some avenues for further research. First of all, the fact that the business and entrepreneurs may use different modes of growth has proved to be a challenge (McKlvie and Wiklund, 2010). The impact of ownership on organisational development and decision making can be tested in different growth contexts and possibly a quantitative approach to verify its specific causal relationship with different growth factors (Zahra et al, 2000). Further, the area of knowledge management in entrepreneurship research has been a growing field with increasing attention to the role of new competency development. Resource-based competency is increasingly seen as a knowledge-based view of a firm, with knowledge emerging as the most valuable of resources, and how to access, manage and apply knowledge is a major research issue (Lockett et al, 2009). Additionally, we may draw on the nascent strategic entrepreneurship literature to better understand how SMEs can maximise the value of entrepreneurial opportunity by developing their strategic dynamic capability to meet the demand of technological, economic and global changes. One possible means is through effective leadership. One good example of research in this area is Diamante and London (2001)'s proposal concerning the concept of 'expansive' leadership patterns, as it addresses the important role of leadership in managing and developing desirable new resources through constant learning based on maintaining attention on new technologies and changes in the business environment. Furthermore, diversification strategies are an important means for growth and expansion in the small business sector (Iacobucci and Rosa, 2010). Researchers in different industrial organisations make different predictions about the market power characteristics which distinguish risk-reducing and risk-enhancing vertical acquisitions and mergers than do researchers of strategic management and transaction cost economics. It demands more empirical study of diversification strategies, market structure and risk for small businesses across life cycle stages.

However, this research is not without its limitations. I am aware that it is based on just three case studies therefore they may not reflect the whole variety of business practices. This factor has been taken into account when interpreting the findings. Small firm growth is also a process that evolves over time, sometimes it does not proceed linearly but, instead, can follow may ups and downs. The 'one time point' approach utilised by theses case studies is unlikely to reflect the long term effect and outcome of particular strategic choices and decisions. Also it is unable to identify critical events and changes in the development process over a long period of time. In this sense, quantitative surveys and questionnaires are not appropriate approach for this topic. Ideally, such research would require a longitudinal research design in which a series of entrepreneurial development milestones are monitored over a period of years. As is common in qualitative analysis, purposive sampling rather than statistical sampling is used, thus the propositions only suggest some insights on new variables or relationships to provoke further research questions and direction. That said, I hope this work has served to cast some new light on how small firms grow in a systematic manner and will act as a signpost for further research, including other and possibly larger longitudinal studies of this topic.

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Appendix I. Table 1.1 – 1.4

Table 1.1. List of Interviewees in the Three Case Study Companies (2005 - 2010)

<table>
<tr><td colspan="3">Interviews conducted from June – December 2005</td></tr>
<tr><td>Case 1. Six Interviewees in Indigenous entrepreneur-owned Firm</td><td>Case 2. Six Interviewees in Foreign-Owned Joint Venture</td><td>Case 3. Six Interviewees in trans-ownership firm</td></tr>
<tr><td>1. Owner Entrepreneur</td><td>1. President & CEO</td><td>1. General Manager (rep of collective ownership)</td></tr>
<tr><td>2. Office Director</td><td>2. General Manager</td><td>2. President (rep of private ownership)</td></tr>
<tr><td>3. Vice-General Manager (manufactory and marketing)</td><td>3. Chief Designer</td><td>3. Operations Manager (manufactory & logistics)</td></tr>
<tr><td>4. Marketing Manager</td><td>4. Marketing Manager</td><td>4. Marketing Manager</td></tr>
<tr><td>5. Finance Director</td><td>5. IT Manager</td><td>5. Accounting Manager</td></tr>
<tr><td>6. Personnel Manager</td><td>6. Human Resource Manager</td><td>6. Personnel Manager</td></tr>
<tr><td colspan="3">1st Revisit in August 2009</td></tr>
<tr><td>Case 1. Two Interviews
- Owner entrepreneur
- Office director</td><td>Case 2. Two Interviews
- President & CEO
- Marketing Manager</td><td>Case 3. Two Interviews
- Former operations manager
- Former Vice-GM</td></tr>
<tr><td colspan="3">2nd Revisit in December 2010</td></tr>
<tr><td>Case 1. Four Interviews:
- Owner entrepreneur
- Office director
- Vice-general manager
- Marketing manager</td><td colspan="2">Case 2. Four Interviews:
- President & CEO
- General manager
- Marketing manager
- HRM manager</td></tr>
</table>

Table 1.2. Key Attributes of Three Case Study Companies

	Case 1. Privately-owned Enterprise (POE)	**Case 2. Foreign Joint Venture (FJV)**	**Case 3. Collective-owned Enterprise (COE) (Trans-ownership venture)**
Ownership	Indigenous owner-entrepreneur (100% owned by one entrepreneur)	Foreign-engaged joint venture (45% ownership of American partner and 55% of overseas Chinese entrepreneurs)	Mixture of private and collective ownership trans-ownership (51% owned by private owner and 49% owned by collective ownership)
Size	170 employees	200 employees	600 employees
Age	1996 - present	1997 – present	2002 – 2008
Sector	Textile	Textile	Textile
Core Business	Cashmere fashion products	Luxury women fashion clothing	Women and Men's fashion clothing
Strategic focus	Manufacturing and export	Brand management and marketing	Manufacturing and export
Gross Revenue (2005)	USD 3.86 million (overseas and domestic sales together)	USD 8.94 million (domestic sales only)	USD 1.1 million (overseas sales only)
Annual Growth Rate (2001-2005)	41.8%	77.5%	33.3% (2002-2005)

Table 1.3. Summary of Organizational Characteristics Profile in Different Types of Business Venture
– Contrasting Features of Three Case Studies

Contingency factors	**Case 1. Indigenous Entrepreneurial Firm (POE)**	**Case 2. Foreign-Owned Joint Venture (FJV)**	**Case 3. Collective-Owned Enterprise (COE)**
Opportunity	Cashmere product demand in domestic mass market; overseas orders of cashmere product;	Increasing demand on luxury brand of women fashion wear in niche market;	Low-cost production of garments in both overseas and domestic mass markets.
Resources	Physical and raw material resources: manufacturing facilities and technology-enhanced production capacity; cashmere raw material supplier network; owner entrepreneur's expertise and skills; experienced workers; flexibility.	Financial, human resources and intellectual capital: access to foreign capital and American partnership, advanced management approaches; knowledge of brand marketing; intellectual property on brand and patterned design; international awarded fashion designer; reputation; effective learning model and knowledge accumulation ability.	Physical, financial and human resources: manufacturing facilities, land and equipments; bank loans, experienced work force; buyers and suppliers network and overseas client base.
Organisational factors	- *Structure*: Owner-dependence pattern: Informal and 'ad hoc', low skilled and multi-roles, arbitrary-allocated rewards; low autonomy. - *Strategy*: short-term profit return & productivity orientation; expansion in production capacity through technology advancement and quality improvement; organic growth combined with acquisition growth; diversified product portfolio from main categories of cashmere clothing and sideline of silk product to the	- *Structure*: Professional matrix structure: Formalized procedures, highly skilled and specialized roles, with explicit written criteria for rewards; high autonomy and employee empowerment. - *Strategy*: long-term high value orientation; brand-focused strategy; product portfolio development; customer and marketing-centred; outsourcing replacing manufacturing; growth through domestic both market penetration & new markets development and brand value enhancement; - *Management &*	- *Structure*: Authority-based hierarchy structure: Centralized bureaucracy procedures, high finance and cost control; low rewards; low autonomy. - *Strategy*: short-term profit-maximization orientation; expansion in economics of scale; diversified product portfolio and low-cost production; export approach to increase orders from overseas markets. - *Management & leadership:* Directive and top-down, centralized authority and hierarchy, emphasis of compliance,

	cashmere & wool thread production; export approach to overseas markets. - *Management & leadership:* directive and participative with an emphasis on compliance, owner-centred decision making; total control. - *Culture:* family-coherence value with an emphasis on harmony and caring; authority and compliance; low employee welfare; high ethical standard of social responsibility.	*leadership:* dichotomous leadership, democratic president with authority-based supportive general manager; emphasizing on delegation and results, learning priority, and knowledge management; teamwork and shared decision making. - *Culture:* Western style management culture with an emphasis on self-actualization and achievement-orientation, encouraging creativity and personal development, nourishing knowledge advancement, high morality and ethical standard.	mixed systems of market mechanism and bureaucracy; coexistence of profit-driven entrepreneur and bureaucrat; conflicting interests of shareholders. - *Culture:* hybridization of capitalism and socialism values; centralized decision making; profit-maximization orientation and cost minimization control; low morality and ethical standard.
Learning	Informal and random; emphasis of experience-based learning; rules of thumb and learning on the site.	Formalized and systematic learning; established learning programme; adoption of EPR; knowledge advancement process design and learning centred management system.	Formalized training programme with learning priority on conversion of market-incentives and market values; learning focus of profit maximization and cost control; no knowledge advance and skills training;
Outcomes	- First phase (1997-2006): successful organic growth through developing production capacity and expanding overseas markets to increase orders and sales. - Second phase (2007-2010): rapid growth through acquisition of an established SOE (aiming for increasing production capacity and further broadening product portfolio to multiple dimensions.	- First phase (1997 – 2006): successful growth through creating high value-added brand product based on foreign partnership and capital investment, knowledge and expert power; - Second phase (2007 – 2010): rapid growth through new markets development, high brand value enhancement, increased competitive advantage of intellectual capital.	- First phase (2002-2008): growth through a combination of production capacity and market networks via a merger between two ownership companies. - Closure in 2008 due to irreconcilable management conflicts.

Table 1.4. Key Strategic Changes from 2005 to 2010

Case 1. POE	***2005***	***2008***	***2010***
Strategic focus:	Both indigenous retail and wholesale markets; brand management and labour intensive manufacturing	Export and semi-raw material manufacturing & increasing production capacity	Production technology advancement; cost reduction; overseas network relationship building – move from labour intensive to technology based manufacturing
Market position	Dominant market share in domestic regional markets	Declined domestic market share and dramatically increased overseas orders	Growing market share in raw material supply market; continuingly increased overseas orders; withdrawn from domestic retail market
Product portfolio	Own branded cashmere sweaters for men and women	Broadened range of cashmere products, silk clothes and semi-product (cashmere and wool thread)	Semi-material and cashmere finish goods
Growth strategy	None to emergent	Market expansion & backward vertical integration	Economies of scale through production quantity and unit cost reduction
Case 2. FJV	***2005***	***2008***	***2010***
Strategic focus:	Retail female fashion market; brand management	Franchising nationwide; consolidating luxury brand value	Brand added value; investing R&D in new material and design – move from 'do it alone' to 'do it all together' with franchisers with emphasis on enhanced quality and emotional values attached to the brand
Market position:	Dominant market share in domestic regional markets	Increased domestic market shares and new market development	Growing market share in nationwide market; strengthened brand reputation and awareness
Product portfolio	Designer cloth for women	Luxury designer cloth for professional, high come women	Focus on luxury fashion cloth with redefined customer segment of professional & wealthy customer groups; introduction of luxury accessories
Growth strategy	Value added brand building	Marketing penetration & new market expansion	Market expansion, brand value consolidation and increased profit margin and high value return
Case 3. COE	***2005***	***2008***	***2010***
Strategic focus:	Both retail and wholesale markets; brand management and labour intensive manufacturing	Brand management, manufacturing facilities, both domestic and overseas markets	Closure in 2009. The private owners split with state ownership.
Market position:	Dominant market share in domestic regional markets	Suffering significant decline in market share, profit margin and financial loss	
Product portfolio	Shirt and trouser for men and women	Diversified categories of cloth: men shirt, women dress and young generation fashion cloth	

Growth strategy	Economies of scale & profit driven	Labour intensive production with emphasis on quantity; management cost reduction	

Appendix II. Figure 2.1 – 2.5

Figure 2.1 The Entrepreneurial Process (Source: Wickham, 2006:228)

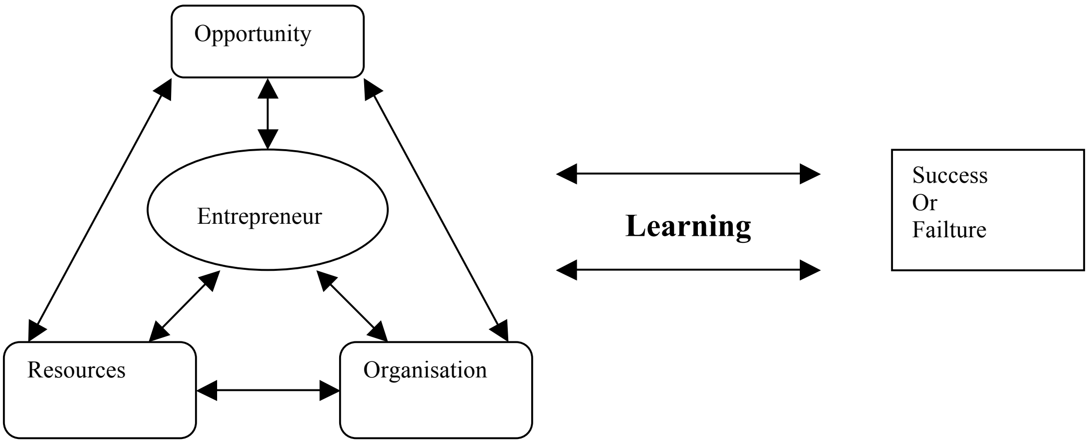

Figure 2.2. CASE 1. Organizational Chart of Owner-Managed Indigenous Firm: Owner-Dependent Structure

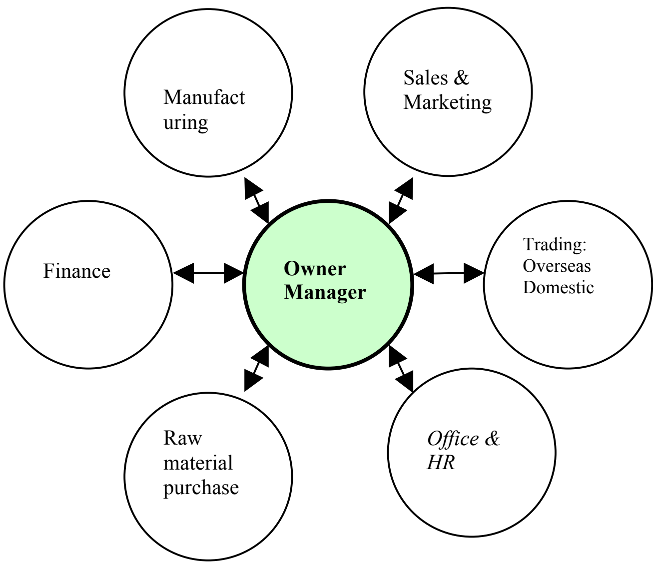

Figure 2.3. CASE 2. Organizational Chart of the Foreign-Owned Joint Venture: Customer & Marketing-Centred Structure

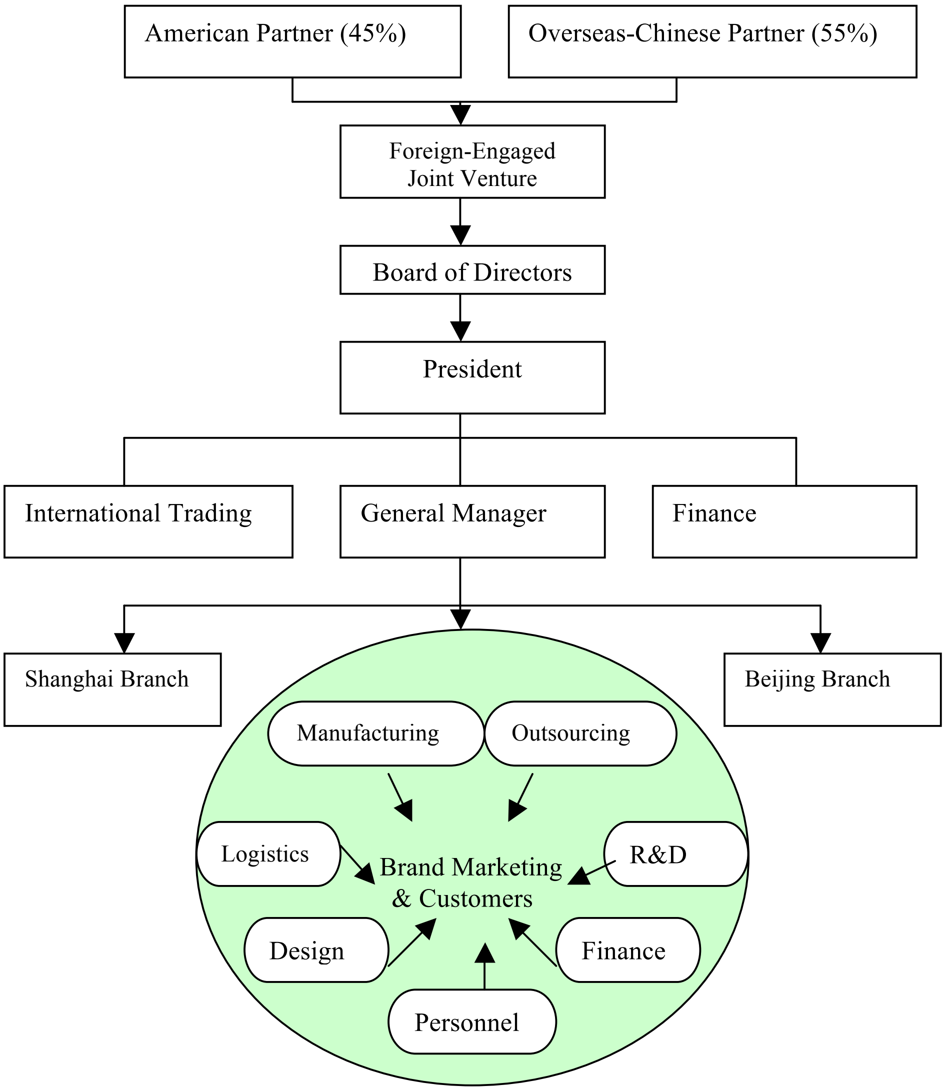

Figure 2.4. CASE 3. Organisational Chart of Trans-ownership Collective Company: 'Barbell Structure'

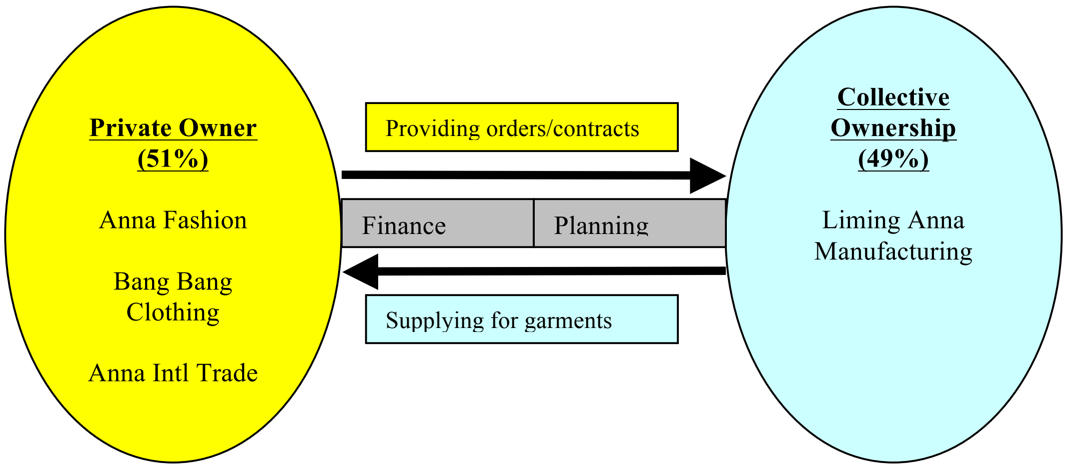

Figure 2.5. CASE 2. Adoptive and Iterative Learning Processes in Sunfed