

Entrepreneurial Growth Strategies under Market Socialism in China

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Abstract

By drawing on the 'contingency approach' to explain organisational and managerial issues surrounding emerging Chinese entrepreneurial ventures, the research seeks to distinguish how the theoretical principles for understanding how a challenging business environment can influence management practice and entrepreneurial behaviour. A case study approach is adopted to explore the phenomenon in some depth, and through this methodology it is possible to identify connections between theory and practice, and report on several distinct characteristics of Chinese entrepreneurial ventures in the economic transition of market socialism in China. Several managerial implications are extracted from the study, a conclusion is reached and directions for further research offered.

Introduction

One of the striking features of China's economic reforms and its transformation from a command to a market driven economy is the rise of the private sector. Governmental initiatives have significantly moved towards allowing market forces to influence economic activity, and as a result such changes have led to increased opportunities for private firms to prosper. China's increasing reliance on private companies as a vehicle for economic growth and the creation of jobs is receiving increased attention, as such firms tend to be outpacing, and growing at a faster rate than the economy at large. The entrepreneurial activity associated with such high growth based firms in China is therefore worthy of further research attention. In response, this manuscript aims to shed light on such emerging trends and characteristics associated with the growth of Chinese entrepreneurial activities and particularly the managerial behaviour associated with Chinese entrepreneurs.

Background: The Emergence of Market Socialism in China

Chinese business and enterprise is a hot topic of central debate in both western practitioner and academic discourse. The subject generates a host of myths, as to why Chinese enterprises behave differently, and how Chinese society has successfully transformed from a planned to a market-oriented economy. The connectedness between the legacy of the market economy and the emergence of private sector entrepreneurship seem to have developed in-congruence. The emergence of Chinese indigenous entrepreneurs is the offspring of market reforms and their growth is deeply embedded in the process of market transition.

Socialism and capitalism, as two social regimes co-exist and challenge each other under different political and economic systems. The core differences between the two social systems as far as the relations of production are concerned, is in the nature of ownership and control (Pierson, 1995). Like the capitalist society, socialism represents a complex system that is systematically geared to the accumulation of wealth. Under capitalism, the means of production and economic surplus are privately owned, while in the socialist societies, the ownership and economic surplus are legally transferred to government, namely - people of the whole country that own them. The distribution of this

'publicly-owned' surplus is subject to claims by all sectors of socialist society and is a deliberate political process (Davis and Scase, 1985). Marx and Engels (1969) suggest that under capitalism, producers create economic surplus which becomes the personal wealth and property of non-producers.

Socialism in China initially adopted Marxist theory and the Soviet model when it was established in 1949. Over decades, the Communist Party of China (CPC) has gradually developed its own socialist model and radically redefined many of the terms and concepts of Marxist theory in a Chinese context to justify its economic policies. The Chinese government has long since argued that socialism is not incompatible with economic policies such as markets and free trade, or any other model that appears to work (Wu, 2003). In the current climate, China is at the primary stage of socialism, and this redefinition allows the People's Republic of China (PRC) to justify the existence of an economic market.

China's transition from a planned towards a market economy has many surprising features. Whilst the communist regime remains intact, reforms have led to the gradual erosion of state economic control rather than a quick retreat from planning. Reforms began with no clear objectives other than a determination to improve performance (Peng et al, 2004). The goal of creating a socialist market with Chinese characteristics is itself an outcome of the reform process that has emerged well into the second decade of transition. China's hybrid economic system represents a mixed political economy with both socialist and capitalist characteristics (Lichtenstein, 1992; Morphy et al, 1992; Naughton, 1994; Opper, 2001). It is not simply a socialist economy like the old Soviet or Stalin model, nor is it characteristic of western capitalism. China falls somewhere between the two.

However, the centralized planned economy of China in the past displayed serious inefficiencies in utilizing and distributing resources, resulting in low productivity (Child, 1994; Lardy, 1999; Wu, 2003). The reforms launched in the early 1970s for step-by-step economic improvement were initiated in the agriculture sector. In terms of outcome, the last 25 years of reform has seen rapid economic developments, with an average annual growth between 1979-2005 reaching 10.2 percent (China Statistics Yearbook, 2006). Along with rapid economic development, China's impoverished population has decreased

by 147 million (Dong, 2003). As a developing socialist country with a large population and territory, China has enjoyed sustained, rapid economic development, and has constantly improved living standards for its citizens.

The significant growth of China's economy has been the focus of global attention and the subject of much practitioner and academic discourse. The UN (2003) claim that China has become the "locomotive" for Asian economic growth (Joshua, 2004). This may not be totally precise, but it nevertheless signals that China is making a significant contribution to the world economy. These economic achievements are appealing to other countries that now recognize China's economic development model.

The Emergence of the Private Sector

As a result of economic reforms, private enterprises were initially allowed to supplement the state and collective sectors in the mid 1980s. Private enterprises firstly began to trade in rural sectors, as a result of privatization in agricultural industries. This followed with the establishment of small scale enterprises in urban areas. By 1988, when private firms were officially recognized, China had around 500,000 enterprises that could be classified as private firms (Gregory and Tenev, 2001). In 1997, over 4 million workers were made redundant from the state sector, however, they all found new employment in the private sector (Zhang, 2002). The number of registered private firms rose from half a million in 1995 to approximately 12 million in 2005. The average annual growth rate reached 94.5%. Employment in the private sector increased from around 10 million in 1995, to approximately 170 million in 2005 - an almost 18 fold increase. As a result, the production and value added activities of the private sector have significantly contributed to the Chinese economy over the last two and a half decades.

The Emergence of Chinese Entrepreneurs

Chinese entrepreneurs have emerged along with changing economic structures and the development of private enterprise during the 1990s. These new entrepreneurs often moved from secure jobs in modest factories with hope of making fortunes. They are adventurous, risk takers, and most run their businesses via rules of thumb. They are very keen to cash in on market opportunities and are able to manoeuvre promptly. They also

have great flexibility in responding to the changing global dynamics that is often fuelled by unclear and rapidly changing government policies, taxes, and regulations. The market economy in China, commonly regarded as the revival of capitalism, pays off for Chinese entrepreneurs and private enterprises. It provides the potential for high rewards.

Based on the number of private enterprises that have emerged, there has been a significant group of “nouveau riche” enterprises in China. Due to the historical background of privately-owned enterprises, these entrepreneurs are often poorly educated and manage their businesses very informally. However, they do have the desire for formal management patterns and to acquire knowledge to handle their increasingly complex business environment and growth. A survey by Sun and Duan (2003) of 3539 entrepreneurs reveals that improving the management practice represents a key change for Chinese businesses.

The entrepreneurs are facing major challenges due to China’s accession to the World Trade Organization (WTO) – which provides a new impetus for the government to move toward a non-discriminatory policy for private enterprises. This will not only expose the domestic private sector to new competition from abroad, but will also introduce new financial institutions to serve the needs of private business (Crook, 2002). Hence, the environment will continue to evolve rapidly. The challenge for the government and entrepreneurs alike is to ensure the domestic private sector has a solid foundation so that it will be ready to seize new opportunities. China’s home-grown entrepreneurs have shown impressive flexibility and dynamism in expanding their businesses in the absence of secure legal frameworks, and with very limited access to external finance (Gregory and Tenev, 2001; Dorn, 2001).

Recent policy changes have however provided businesses with access to new resources and capital. Although Chinese leaders publicly support the private economy and have ordered that it be treated on the same basis as State-Owned Enterprises, many banks still struggle to break their habit of providing priority lending to governmental companies (McGregor, 2004; Dorn, 2004). China’s ability to compete internationally will depend on the ability of such nouveau riche entrepreneurs to raise their profiles to compete with the best western based firms.

The significant growth of privately-owned enterprises has become a driving force for the Chinese economy, and is a dominant ownership mode in the country. Private enterprises are organized in a very informal way because of how the domestic private sector has emerged in history i.e. in the shadow of the state economy. This informality has provided an impetus for entrepreneurs to become flexible and respond to an uncertain business environment. The current climate does however hamper the entrepreneurs' ability to raise capital, reward managers and employees. Due to having a lack of management skills and professional managers, private enterprises tend to be stuck in a framework of legal, financial, and governance structures that they have outgrown in terms of the size and complexity of their businesses (Warner, 2004; Zhang, 2002; Child, 1998a).

In private enterprises, the entrepreneurs represent the spirit of the organization as they start up their businesses and take the direct and central supervision for their management. The owner managers often make all the decisions and take all the risks for their business ventures. Their success or failure determines the fate of their whole enterprise. As Schlevogt (2001) suggests, the private Chinese organizational model tends to be very centralized with an informal structure and strong entrepreneurship that emphasizes enterprise networks and traditional cultural values. Such use of these kinds of networks distinguishes their operations from many state-owned and collectively-owned enterprises. The privately-owned enterprises detailed in this case study demonstrate such distinct characteristics based on economic reforms over the last decade and a half.

Research Approach:

This research aims to seek explanations relating to the entrepreneurial growth strategies in the private sector under the transition of a market economy in China. Two business enterprises - characterized by different ownership forms were targeted for this research. One an indigenous entrepreneurial venture and the second, a foreign-joint venture. Both operate in the textile industry, which is a highly competitive sector and at the frontier of economic reforms in China. It is a sector that reflects nascent managerial trends in the changing Chinese economy.

Contingency Theory

The underpinning theory related to this research is the 'Contingency Approach', as applied to explaining the growth of entrepreneurial ventures emerging under market socialism in China. This approach provides theoretical principles for understanding how a changing business environment can influence management practice. Contingency theory suggests that organisation theory should provide insights into the situational and contextual factors which influence management decisions and behaviour (Vecchio, 2000; Fincham, 2005). The contingency approach focuses attention on the relationships between the effects of uncertainty in a changing external environment and the impact upon organisational change and management practice. Particularly, it is concerned with understanding the interdependent relations between the internal characteristics of an organization and its external environment. (Lawrence and Lorsch, 1969; Daniels and Radebaugh, 2001; Watson, 2002;)

The proponents of this perspective differ in the ways in which they have conceptually measured internal organizational characteristics and the work of the organization. For example, Woodward (1970) focused on a variety of technologies as a key variable. Lawrence and Lorsch (1967) meanwhile conceptualized the organization's work as dealing with its external environment and viewed the important internal organizational parameters as differentiation, integration, and conflict resolution. Thompson (1967) raised concern with both the technology and environment, and introduced a different set of organizational variables (e.g. structure, discretion and control). Lorsch and Morse (1974) explained how the personal characteristics of organization members are related to organizational factors, and how these can shape organizational effectiveness. Organization processes and management practices must fit the requirements of the surrounding culture. The cultural context shapes the perception and interpretation of organizational change and influences choice governing its management (Faucheux, Amado, and Laurent, 1982; Triandis, 1994).

Contingency theory seems to provide a suitable approach for understanding the management practice in contemporary China, as it addresses the interrelationships between various organizational processes within the context of a changing business environment. Specially, contingency models of the organization highlight the

interrelationships between strategy, structure, methods of operations, and the nature of environmental influences, and provide a further possible means of differentiation between alternative forms of organization and management (Waterman et al, 1980; Peters and Waterman, 1982; Robins, 2001; Martin, 2005). Managerial practices can not be independent of the environment within which organizations operate. This approach better explains the complexity and dynamics within such rapidly changing environments i.e. from a pure 'socialist' to a 'market socialist economy'; 'closed' to 'open' paradigm; or 'planned' to 'free' economy. This research explores these issues on the basis of detailed case studies involving two different types of business venture. By examining an organization's internal process in association with its external environmental factors. The research aims to make a useful contribution and extend our understanding relating to entrepreneurial growth strategies in China.

The Utility of Case Studies

Case studies were used in order to explore in depth the growth strategy and related management behaviour in emerging business ventures under market socialism. Through case investigation, the research provides some useful connections between theory and practice. The development of management theory is inseparable to practice which is based on summarizing and analyzing management practice (McGregor, 1987). The case study method represents an optimum approach here and is useful for searching explanatory laws, as it provides holistic and episodic information adding to existing experience and humanistic understanding. Case studies have an epistemological advantage over other inquiry methods as a basis for naturalistic generalization (Yin, 2003; Stake, 1995).

In each of the case studies, open-ended interviews were conducted with key informants in each organization's management team. As Noaks and Wincup (2004) recommend, the key for obtaining rich data is through active listening in which the interviewer allows the interviewee the freedom to talk and ascribe meanings, while bearing in mind the broader aims of the project. As the research aims to obtain attitudes and values that cannot be necessarily observed or accommodated via a formal questionnaire. Open-ended and flexible questions are therefore considered useful for

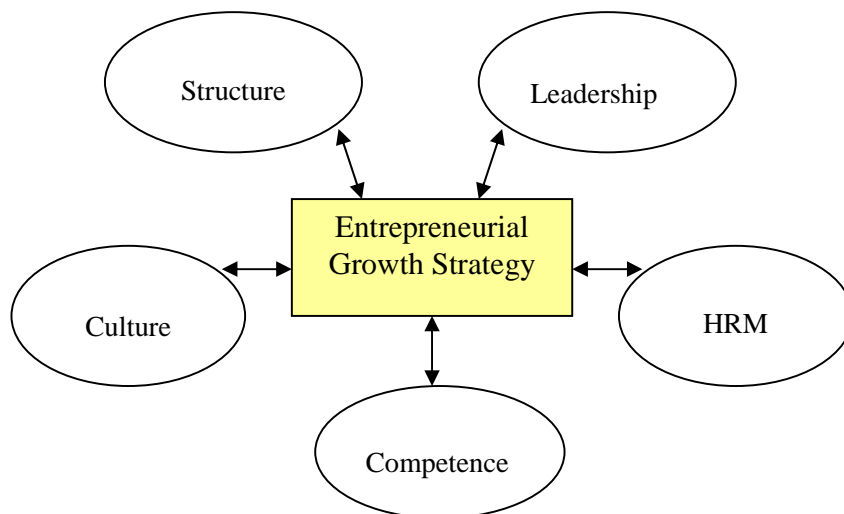
probing on the experience of entrepreneurs and for extracting honest opinions (Byrne, 2004; Fontana and Frey, 2000).

The comparison between two cases aims to draw casual links between indigenous entrepreneurial behaviour and that incorporating some degree of foreign investment via an international joint venture.

Research Measures

For the purpose of collecting data and undertaking the case studies, a structured framework was designed for ‘organizing’ and ‘pinpointing’ the main characteristics for each of the case studies. Figure 1 was used as an analytical tool for collecting data and obtaining insights on how strategies are formulated and implemented.

Figure 1 Mapping Entrepreneurial Growth Strategies



Strategy is about planning in relation to the allocation of a firm’s scarce resources over time to reach identified goals. In firms, strategy is frequently discussed at both a corporate and tactical level. Corporate strategy is involved with the long term planning in relation to organizational development, and making decisions relating to the external environment to achieve goals. Tactics are more concerned with short-term planning and

guiding the operations of major functions within an organization (Johnson and Scholes, 2002; Grant, 2005).

Structure is characterized by the sum of the ways in which labor is divided into distinct tasks, and is coordinated to achieve tasks (Mintzberg, 1983). The structure can be classified in several types such as an organic-open or closed-mechanic bureaucracy, flat or tall hierarchy, function or division, and a centralized or decentralized system. In Contingency theory, how the structure is designed in an organization depends on both internal variables and external situational factors. The structure of an organization usually incorporates a division of work, the degree to which authority is centralized or decentralized, the operating procedures and mechanisms designed within the skeleton of the structure that determine how work is done and tasks undertaken. (Peters & Waterman, 1995)

Leadership is concerned with how entrepreneurs lead in achieving an organization's goals as well as managing their employees. The essential part of management is coordinating the activities of others and guiding their efforts towards goals and objectives of the organization. Leadership is a central feature of any organization which can vary from very democratic to directive approaches (Wickham, 2001; Rajan, 2002;).

Human Resource Management (HRM): Lynch (2003) emphasizes the importance of people as a vital resource for sustaining competitive advantage. For some industries people are not just important, but are often the key factor for successful performance. HR policies and practices have an important role to play in facilitating the effective implementation of management processes (Redman and Wilkson, 2001; Torrington et al, 2005).

Culture refers to the significant meanings or guiding concepts that an organization aims to pass onto its employees (Waterman et al, 1980). Organisational culture particularly consists of routines, rituals, stories, symbols, power structures and control methods that

are used within the enterprise (Handy, 1993; Hofstede et al, 1990). They also correspond to the values driving employees' beliefs and the understanding of business development.

Competence represents the core capability that the firm possesses. It also refers to the distinctive capabilities of key personnel and the firm as a whole. (Peters and Waterman, 1982; Pascale and Athos, 1986) Particularly, competitive advantage is deemed useful for firms trying to build on such core competences (Porter, 1980).

The Selection of Case Studies

Two case study companies were chosen to represent the significance of two forms of ownership in the textile industry in the private sector. These are (1) an indigenous entrepreneurial enterprise in China, (2) a foreign joint venture involving a US company forming a joint venture partnership with a Chinese entrepreneur. The former traces a typical entrepreneur from start-up and reports on the growth strategy and process of a privately-owned indigenous entrepreneurial venture that emerged via the transition of the Chinese market economy during the 1990s.

In the latter, a foreign joint venture, the case reports on an example of 'full localization' regarding the management of foreign joint-venture enterprises (Gamble, 2000; Yan and Warner, 2001). Davidson (1987) advocates that the performance of sino-foreign joint-ventures depend greatly on qualitative factors such as individual personalities, organisational cultures, compatible administrative styles and complimentary management philosophies. The expatriate managers in this venture, the president and general manager, are overseas Chinese entrepreneurs who were born and brought up in China but emigrated to the United States. They have adopted advanced western management approaches through overseas higher education and have a deep understanding of western culture through living in the US. However, they also have a full understanding of Chinese culture as they have primarily lived and worked in China during their careers.

The Collection of Data

Multiple sources of evidence were used in this investigation, based on the framework presented in Figure 1. Semi-structured interviews, documents from company archives, and financial data were used. The semi-structured interviews were tape recorded and later used to help transcribe the data. A chain of evidence was maintained via explicit links between the questions asked, the data collected, and the conclusions drawn. Yin (2003) suggests that the incorporation of such principles into a case study investigation can increase the overall quality of the findings. In order to ensure quality control in the data collection process, the fieldwork investigation was designed and organized in a scientific manner. For instance, a full protocol of fieldwork research was scheduled before the investigation started.

Analysis of Findings:

Whilst the two case companies both operate in the same industry and are similar size, their growth strategies significantly vary. The motivations that drive the companies to develop, the means by which they expand and grow, and the mind-sets of those who build their operations are not alike due to their diverse ownership. The US joint venture company (DSF – pseudo name) operates more of a western approach and supplies high value-added branded goods. The company has a deep understanding of the strategic approaches to brand marketing. The foreign joint venture demonstrates high vision of strategy with long term planning, flexible management ethics, knowledge advancement, and seeks opportunities both domestically and globally.

In the field of branded clothing, foreign companies often have expertise and advanced knowledge. Comparatively, the brands of indigenous firms are relatively less famous which provides a challenge for Chinese entrepreneurs. Given their advanced knowledge about brand management, DSF has placed much emphasis on developing brand equity as the core of the company's corporate values. However, investments in brand building activities do not have an immediate pay-off. Frequently, many Chinese companies are unwilling to invest in building such brands. Their reluctance is mainly due to little knowledge as well as the lack of a long term vision.

They tend to be tempted and pressured by short-term returns. DSF's brand strategy shows a long-term focus aimed at increasing its market competitiveness. This type of

foreign joint-venture has a distinctive advantage in terms of its management approach, perhaps due to the acquisition of knowledge from the west. Compared with privately-owned local enterprises, foreign joint-ventures often position themselves at the high end of the market and tailor products to serve this segment. Foreign capital can prove useful here for building the brand, which requires constant and extensive investment for a long period without an immediate return.

The privately-owned indigenous enterprise holds an aggressive approach for expansion and growth. There is no explicit strategic planning over the long term, but the indigenous entrepreneur utilises its capability and resources to develop personal relationships and networks, which the entrepreneur needs for survival. A production-oriented approach based on providing reasonable quality and volume is frequently adopted. Gaps in the market have provided the indigenous entrepreneur with good opportunities to grow. Foreign agents and distributors are often used to enter international markets. A sensitivity to market change, a flexible structure and informal management style support the strategies of this firm. In comparison with the foreign joint-venture, the indigenous entrepreneur is limited in terms of brand knowledge awareness, and does not have professional teams to help formulate strategic plans. Such indigenous enterprises still have much to learn in order to further develop their competitiveness and capability in the long run.

Structure varies according to the size of enterprise, the nature of work and the philosophy of management. It provides the framework of an organization, its pattern of management and it makes possible the application of management processes that create a framework of order and command through which the activities of the organisation can be planned, organised, directed and controlled (Child, 1984; Birkinshaw, 2001). The case studies reveal that the pattern of structure is also determined by the type of ownership and entrepreneurial vision. The indigenous firm Xion has a flexible and fluid structure. The foreign joint-venture DSF meanwhile is characterised by a market-focused structure to match its brand strategy. Such a relatively open structure facilitates personal development embedded with a high level of concern to promote intrapreneurship.

In sharp contrast with the foreign joint venture enterprise, the structure at Xion is almost non-existent. There are no documents relating to HR policies, management

procedures, or company regulations. Basically there is no real structure, but a pattern of dependency found on the owner. The proprietor is very much at the centre of the spider's web (Handy, 1993). Informality and high flexibility are the major characteristics of the entrepreneur. No hierarchy exists as the proprietor is the sole authority for all working procedures. Although this may provide flexibility, the company is in chaos when tasks become complicated and when the proprietor is not around. Particularly, the owner is often saturated with too much information, and this results in exhaustion and the incapability of exercising total control.

The foreign joint-venture has combined systems in both a formal and informal format. An open and knowledge-based mechanism exists which promotes personal development and employee creativity. DSF has formal rules for the control of implementation processes and procedures, while it also allows autonomy to staff for creativity. A knowledge-based learning system is highly promoted and implemented in the organisation which acts as a catalyst for innovation and intrapreneurship. Constant knowledge, education and learning become incumbent upon employees at DSF. Tension in DSF is created between the demand for creativity, and the capabilities of employees. Although more intense education and training is designed to enhance skills of employees, their capacity to digest such knowledge is still questionable. Constant work to retain its competitiveness requests a major challenge for DSF as the company positions itself at the cutting edge of knowledge in the high value-added chain of the clothing industry.

Human Resources: The foreign joint venture offers relatively better life security and employee benefits than the indigenous enterprise. Extra hours at work are paid for at a reasonable rate of pay, annual increments in salary and all round welfare is provided. More benefits, such as housing funds and bonuses are also offered to the key personnel at DSF. This is in contrast with the insecurity of employee benefits and welfare in the privately-owned enterprise, where only minimal pay levels are promised. In the privately-owned company, the owner utilises financial rewards as the sole control tool in an informal and verbal approach as an attempt to gain employees' commitment and motivation. It is used as a minimum level whenever the owner feels it is necessary to do

so. There is no formal guarantee and legitimate security for long term employee benefits and welfare at Xion.

Comparatively, the foreign joint-venture provides all legally required welfare and benefits to the staff with formal but short-term contracts. Furthermore, there is also personal development schemes, offering opportunity and training for ambitious individuals. These distinctive elements provide opportunities for self-actualization (Maslow, 1987). The 'soft' means of rewards reflect human relation concerns in DSF, such as good working conditions with personal laptops, company cars, compensation for travel, opportunity to study abroad and promotion etc - which fulfil an important function in motivating staff and developing personal potential. Higher education qualifications are an essential requirement for key staff at DSF, as their knowledge is regarded essential for brand building and talking the company forward.

The US partner also emphasizes the importance of this. Training programmes are an essential part of staff development. Tailored training courses are designed to meet the need of employees. The design of training at DSF illustrates the constant education of employees, and is focused on their understanding of management knowledge to underpin the company's brand. Due to the owner's education background in the US and the adoption of western management practice, the strategic vision of the company is based on high value-added product development, which require knowledge-based staff. Therefore, constant training both on and off-the-job helps to bridge the gap between advanced management practices and low skilled local managers.

Leadership: How entrepreneurs lead in achieving their organization's goals as well as managing their employees form different patterns of actions. The management philosophy underpinning and directing key managers' behaviour is decisive and interactive with other organisational factors, such as structure, culture and the environment etc. Leadership is vital in shaping management structures, as it is crucial to direct enterprises for either success or failure. For instance, in line with Maslow's needs hierarchy (1987), 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. The managers work for their own interests, achievement and advancement.

Likewise the owner of the privately-owned enterprise has a participating and consultative style, he provides a high degree of supportive behaviour for developing a close interdependent relationship with his employees, but allows relatively low guidance for how to do so in detail as the final decision always needs to pass through the owner. The owner entrepreneur works for himself as a self-motivated leader, but his followers do not have the same high motivation due to unstable lower rewards in the small entrepreneurial firm.

The owner entrepreneur is the determining factor for the success at Xion. His explicit leadership style is to influence people by heart and affection, not by rules. This informal leadership is built on top of his unassailable authority. He demonstrates a hybrid leadership style in his management. Besides his authoritarian nature for control of his own business, his leadership is a mixture of supportive, participative and achievement-oriented approaches. This owner actively participates in all activities and decision-making. He prefers to share ideas and consult with his managers before final decisions are made, and expects his employees to take independence for task management. However, his employees' readiness sometimes seems to be lower than what he expects. Insecurity and low rewards may also affect commitment and motivation of his employees.

Leadership in the foreign joint-venture is dichotomous. The president and general manager respectively have a different preference in management style. One is democratic preferring a consultative style and the other plays an authoritative and directive role. They form a strategic combination as both styles are needed in such an open system. Opportunities are provided for personal development and a learning culture is promoted throughout the whole system. Authority is often passed down to the middle management who are expected to make their own decisions and determine procedures to achieve their final objectives. Leadership in this joint venture seems to demonstrate a similar style, with an open culture and high management autonomy. The company expects results from their middle managers and excellent achievement, as the company aims to develop high

profile performance. There are great opportunities to develop personal potential here, but the company also challenges managers to take on responsibilities.

Culture: The guiding concepts, values and beliefs underpinning each type of business venture are in significant contrast. Such dissimilarity seems to principally relate to the different types of ownership. The foreign joint-venture adopts more western cultural values with the absorption of a western management philosophy and ethics. It explains why the foreign joint-venture is at the cutting edge in terms of its brand development. The privately-owned enterprise is a pure entrepreneurial driven business with intrinsic motivation. The owner's philosophy and behaviour determines the organisational processes and cultural norms.

The management philosophies of the owner entrepreneur at Xion, the privately-owned enterprise, focuses on the importance of family culture, democracy, and the consideration of respect to all employees. The work climate is friendly and harmonious, making employees feel psychologically comfortable. The owner entrepreneur tries to share the attitudes of his employees by educating them to have the right values so they cooperate and comply with his direction and decisions. The proprietor is in the centre of a power culture and imposes total control throughout the whole organisation.

The business also prides itself on having a strong learning culture. This is promoted through the owner. Senge (1999) observes that learning organisations can only be built by leaders with fire and passion. Timmons (1999) argues that successful entrepreneurs are patient leaders that are capable of instilling tangible visions and managing over the long term. The entrepreneur is a learner, a teacher, a doer and a visionary (Burns, 2005). The owner of Xion frequently arranges field-visits to advanced companies nationwide and actively joins industry associations, in order to develop new ideas for continuous improvement. He constantly educates his employees and stresses the importance of learning for improving working practice. Such a learning culture has led to innovations in the quality control system and marketing. Burgoyne (1995) suggests that a learning organisation facilitates the learning of all its members and continuously transforms itself. Garratt (1994) views learning organisations as essentially liberating and energizing, and are crucial for organisational survival and growth.

The organizational culture in the foreign joint-venture represents a distinctive learning and knowledge-base. Learning is reinforced through constant training programmes. The willingness to learn new things has become both formal and informal norms for staff. The entrepreneurs at DSF are also advocates and preachers for the dissemination of brand connotation and promotion of a learning culture. The goal of the company is shared by all its employees. This organisational goal reflects the company's ambition and long-term development to be among the best - which inspires employees.

The brand, expresses a prolific personality and provides value to customers in an emotional sense. Top managers play a valuable role in teaching and educating employees on the extent that their values and philosophies are influenced. They promote a high quality of life, encouraging employees to pursue excellence. Knowledge is highly respected in this company, creativity and innovation in marketing and technology are a key focus in employees' education. This is the key value in the company's culture that creates an environment to further develop capabilities, encouraging creativity among staff and innovation. An emphasis on autonomy is regarded as an essential philosophy underpinning the company's ethics. It provides a precondition for advancing high market performance.

Competences refer to the distinctive capabilities of key personnel and the firm as a whole, which form the core of competitive advantage that firms are keen to sustain. In line with resource-based theory (Grant, 2005), a firm's strategic capability is underpinned by its resources that are available. 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, human resources, financial resources and intellectual capital. Amongst these, human, intellectual and reputational/intangible assets are more often difficult to imitate, and so can be the source of competitive advantage (Haberberg and Rieple, 2001).

The privately-owned enterprise has successfully exploited opportunities in the cashmere textiles market place. Within ten years, the company has developed its own featured capabilities and skills. These core competences in Xion are analyzed in terms of leadership, business reputation, network resources, technology and machinery. The

leadership is the most important competence in this entrepreneurial business, as everything depends on the proprietor's preferences and capabilities. His entrepreneurial qualities definitely account for the strength of the business. His flexible and informal structure with quick decision-making allows him to swiftly respond to market trends. He leads an adaptive and organic firm and cultivates a strong learning culture to facilitate innovation and constant breakthrough.

However, as businesses grow, entrepreneurs face challenges and problems as the nature of their organisations change. The more rapid the growth, the more difficult this is. The emerging market economy requires a strong entrepreneurial culture and the input of skilled human resources. Entrepreneurs have to change the way they operate – recruit reliable managers, delegate control and monitor performance. The organisation as a whole must be skilled and not purely dependent on one proprietor entrepreneur. To a certain extent, some formal rules and processes need to be applied and built into the structure and systems so that the implementation of complex tasks can be predicted and monitored. The business is no longer a one man operation. However, there is always the danger that delegation becomes the abdication of responsibility, and as the firm continues to grow, there is a loss of proper control.

In the foreign joint-venture its core competences are gained by developing people and providing opportunity for self-actualisation. Such as the key staff in marketing, brand design, technology and R&D. The open and learning culture facilitates the formation of distinctive capabilities, as constant training and knowledge acquisition helps to reduce failure. The western culture and advanced knowledge in marketing and branding open the staff's view and raise their desire for learning. The use of foreign capital and its joint ownership provides a competitive strength in terms of knowledge transfer and the advancement in management skills. The lack of skills and management knowledge are common problems for most domestic firms. As The China Development Report on the Textile Industry (2004) reveals:

“Chinese garment factories usually concentrate on labour intensive manufacturing work and low value added products. They lack marketing and branding knowledge to build high value added products, therefore, they are unable to become a R&D based industry but cluster in the low technology and labour intensity industries.”

The textile industry that the two types of enterprise operate within is a traditional industry with a long history, and is a major contributor to China's export revenue. Since 1995, China has become a key supplier of textile goods, taking approximately one sixth of the global share and competes with the other three major suppliers: the USA, European Union and Japan (Claro, 2002). After WTO accession, world markets have opened up for China as quotas on textile goods have been reduced.

As a result, China's export quantity to WTO member countries has significantly increased. On the other hand, non-tariff and non-quota barriers have been raised against China's textile goods. These have often taken the form of technical barriers, anti-dumping action, labour standards issues, specific permission requirements and administrative delays. As global competition becomes more severe, trade friction in textiles with other countries is increasing (Zhu, 2006).

During the first half year of 2005, there was a total of 16 cases of this nature, when WTO member countries imposed specific requirements and administrative delays against China's textile trade. In responding to this, the Chinese government withdrew export tariffs on 81 types of textiles on 1st June 2005 (Lu, 2006). Nevertheless, as the effect of trade friction increases, exports to the United States and the European Union in 2006 have fallen by 60 and 35 percent respectively (EU China Trade Brief, 2006). According to the agreements signed in 2005 between China and the EU, and China and the US, annual growth rates for the export of certain textile products is restricted to between 8 to 12.5 percent and 10 to 17 percent respectively until 2008.

Such influencing factors from international markets will inevitably have an impact on the strategy and organisational process of those enterprises involved in foreign trade. The revaluation of RMB and the likelihood that it will continue to appreciate in time to come has also raised concerns for the continued competitiveness of China's textile industry, which has until now, been riding on its key market advantage - low price. The appreciation of the RMB will have a long-term effect on those companies with a focus on international trade. The privately-owned enterprise is as an example. Since the majority of Chinese products are supplied to the low-end of the market and are easily replaceable, it would be difficult to expect foreign customers to absorb any extra costs.

Evidence suggests that diversified investment in specific high-technology development represent an ideal shift-strategy for Chinese textile enterprises responding to such external threats. Home brand building of garments, as a long-run strategy offers further advantages, yet is not prevalently adopted by domestic firms despite the Chinese government appeals for them to do so. The recognition of brands is scant among the majority of domestic suppliers and mainly stems from the lack of knowledge and management theory.

Implications and Conclusion:

The comparison of two case studies of roughly the same size operating in the same industry has demonstrated distinctive contrasting strategies. Although both companies have been somewhat successful with their entrepreneurial ventures in terms of profitability and growth. The foreign joint venture has positioned itself to obtain a more sustained competitive advantage in the long run. The indigenous case appears more vulnerable to the external environment change. Knowledge transfer and delegation represent major barriers for the indigenous firm to grow. Effective learning has been undertaken in the foreign joint venture enterprise which has generated special practical implications for entrepreneurial development.

Evidence from the two case studies suggest that foreign joint-ventures may represent an effective mode of strategic learning for Chinese firms to consider. It was evident that DSF for instance developed a high profile of branded goods. This reflects how the foreign joint venture operates on the basis of somewhat different principles derived from its US co-ownership than the indigenous enterprise. In view of the case study findings, the comparisons between the two types of business venture, are summarized in Table 1.

Table 1. Summary of Organizational Profiles

	Privately-Owned Enterprise	Foreign Joint-Venture
Strategy	Emergent strategy; Market-driven; Growth in production capacity; International expansion via exporting;	Short and long terms strategic planning; Customer-driven; Brand Focus; Knowledge-based market penetration; Marketing and networking
Structure	Organic and entrepreneurial; Informal and open; Adaptive and fluid;	Adhocracy and Professional; Formal and informal; Open and entrepreneurial; Knowledge-centred.
Leadership	Authority-based; Directive and consultative; Direct control; Owner-dependence pattern;	Dichotomous: democratic and consultative; authoritative and directive. Delegation and autonomy; Knowledge preaching
HRM	Multi-roles; opportunities for individual development	Highly-skilled; High vision of personal development
Culture	Market-driven; Open-minded learning; Rule of thumb philosophy; Family-style management;	Learning orientation; Belief of knowledge power; Encouraging self-actualization.
Competences	Production capacity; Expertise of team; Capabilities of entrepreneur	Highly-skilled managers; Advanced management concept; Brand strength; Foreign capital advantage.

The learning pattern regarding how western management knowledge can be transferred and accommodated into Chinese practice is induced and conceptualized in this research. This partially demonstrates at a precise level how foreign joint-ventures can bring knowledge and advanced management concepts. Both foreign joint-ventures and indigenous privately-owned enterprises appear to have great growth potential. They each exhibit strong entrepreneurial learning cultures and high market orientation. Foreign joint-ventures benefit from access to advanced knowledge, capital and technology to facilitate their growth and competitiveness. This also shapes the behaviour of managers

in the organisation, who increasingly work to formulate organisational processes in terms of their business strategies, structure, culture, human resource management, and product portfolio planning. As a consequence, innovation and entrepreneurship represent the foundation for their competitive advantage.

While foreign joint-ventures are built on knowledge-based processes that allow them to develop higher value-added products, indigenous privately-owned enterprises may be comparatively disadvantaged in this respect. However, they can overcome this flaw by attracting highly-skilled talent and developing more knowledge-centred product profiles. This trend should increase the demand for a supply of graduates and skilled managers. The problem is that at this present juncture, there is a scarcity of such talent in the Chinese labour market.

Conclusion:

The research has focused on two types of emerging business ventures under market socialism in China. They are the offspring of market reforms that have evolved from the legacy of state socialism and the command economy. The case studies have shown how different forms of entrepreneurial venture shape a diversity of management practices, and the role foreign investment can play in the formulation of strategy and organisational profile development. Challenges and tensions in relation to growth strategies have therefore been revealed in each type of venture's management.

However, there are some issues about the present research that need to be emphasised. These may be considered as follows: first, there are shortcomings in this research associated with the role of case studies in producing valid theories. The use of case studies is still controversial in management research. As Yin (2003) pointed out, whilst case studies may be stereotyped as a weak method, they can represent a rigorous research approach if researchers follow key principles and structured procedures. The generality problem is often an inherent problem associated with this type of research and grand conclusions can not be drawn therefore (Liebersohn, 1985). This indeed is a factor that has to be taken into account when interpreting the findings. Case studies do however allow for the analysis of complex issues in significant depth.

Two case enterprises were selected to represent two distinctive forms of ownership in the private sector under market socialism in China. The aim of this study was to explore the entrepreneurial growth strategy of each of the two types of business venture and explore the interaction of management processes on shaping strategy formulation and implementation. Not only were structured questionnaires used to collect in-depth and wide ranging data, but multiple sources of evidence were used to minimize researcher bias. The case studies have been useful for providing a glimpse of the changing dynamics of entrepreneurial ventures in China following market reform. Further research on the impact of ownership involvement should compensate for this limitation by using mixed methods of data collection; both qualitative and quantitative.

The agenda for further research should focus on the relationship between innovation and ownership involvement. This research has studied some interaction factors and processes for strategy formulation under different forms of entrepreneurial venture - especially with a focus comparing an international joint venture with indigenous entrepreneurial activities in China. Future research should explore the notion of knowledge transfer and technology advancement in more depth - as such research is likely to have a major impact on both business and academic communities at large.

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