Understanding Entrepreneurship Process and Growth in Emerging Business Ventures under Market Socialism in China

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- Summary:

This paper explores the formation and growth of entrepreneurship in three different types of business venture under market socialism in China. It reveals how key contingency factors interacting in different types of firm shape the ‘Chinese Characteristics’ of entrepreneurial processes in ‘China’ type of market economy and explains its impact on firm’s growth or failure. It emphasizes the important ownership effect on entrepreneurial outcomes.

- Abstract

Objectives: This paper aims to provide an insightful view of the entrepreneurial process and growth in different types of Chinese entrepreneurial enterprises under market socialism in China. This issue is explored by examining the organisational characteristics of three emerging business ventures under market reforms and institutional changes. It addresses the interactive effect of key contingency factors in entrepreneurship process and explains its impact on growth or failure outcomes in a particular ‘China type’ of market economy.

Prior work: China’s hybrid economic system represents a mixed political economy with both socialist and capitalist characteristics (Lichtenstein, 1992; Morphy et al, 1992; Opper, 2001). Despite a growing body of research on Chinese small business practices alongside the economic reforms (Shen, 1994; Child, 1994; Naughton, 1994; Schlevogt, 2001; Warner, 2004; Yang, 2007; Kshetri, 2007; Yang and Li, 2008), more empirical studies are required to provide a critical insight into the emerging business practices. This research adopts a contingency model of entrepreneurship

(Wickham, 2006) to examine entrepreneurship process and growth in different types of business venture. It reveals the interactive relationships among key variables such as strategy, ownership, culture and management process.

Approaches: This research is undertaken through the empirical analysis of three case study companies in the textile industry. This fieldwork was conducted in 2006 and 2009 respectively. Multiple sources of data were collected including 21 open-ended interviews of owners and key managers in three case study companies.

Results: The study offers an explanation on how entrepreneurship takes different forms and features in different organisational contexts. Empirical evidence supports four hypotheses: (1) The type of ownership is a key contingent factor that moderates particular entrepreneurial outcomes. (2) Leadership and knowledge accumulation capability are critical factors in learning process, significantly affecting the strategic choices in either high value or low value added products strategy. (3) The broadening of product portfolios and increased production capacity will improve survival chances and increase the likelihood of firm growth. (4) Management capability and consistency have greater impact on the outcome of entrepreneurship process than the resource and strategy factors.

Implications: The findings have significant implications for a conceptual understanding of Chinese entrepreneurship dynamics. It addresses important considerations on government policy making and promotion strategies for entrepreneurship development in different forms of business venture.

Value: The textile sector has pioneered the government reforms in restructuring and creating entrepreneurial enterprises. It offers a perfect case for assessing the entrepreneurship processes in a rapidly changing market environment. It emphasizes the important ownership effect on entrepreneurial outcomes. Drawing upon Wickham's contingency model of entrepreneurship, it provides an improved understanding of this concept under particular circumstance and different contexts.

Introduction

The development of capitalism in China is leading to various forms of ownership. For example, indigenous entrepreneurial firms (owner-managed), joint-ventures, employee-owned cooperatives and 're-invented' state-owned enterprises. The rise of private sector entails diversified forms of entrepreneurial venture. How far do contrasting ownership forms shape different entrepreneurial orientation and processes? Does growth strategy differ in various types of business venture? How do institutional change impact upon such entrepreneurship development? Given the diversity and complexity of business practices emerging under market transition, it is necessary to categorise typical forms of business ventures and in which, assess the emerging trends of entrepreneurship naissance and growth. This is the issue of inspiration in this paper. More specifically, it compares three different types of business venture in small to medium size business – an entrepreneurial firm, a foreign-owned joint venture, and a trans-ownership venture, which represent major emerging forms of ownership in private sector. Through detailed case study of three ventures, we attempt to gain an understanding of entrepreneurial processes and outcomes, aiming to draw a snapshot of organisational characteristics of growth firms through different ownership forms. Conflicts and critical factors that lead to failure are also revealed by a contrast of the successful with unsuccessful venture. It aims to provide some evidence and connections between practice and theory.

The essential hypotheses are four fold: (1) The type of ownership is a key contingent factor that moderates particular entrepreneurial outcomes. (2) Leadership and knowledge accumulation capability are critical factors in learning process, significantly affecting the strategic choices in either high value or low value added product strategy. (3) The broadening of product portfolios and increased production capacity will improve survival chances and increase the likelihood of firm growth. (4) Management capability and consistency has greater impact on the success or failure of the venture than any other contingency factors.

In small entrepreneurial businesses, in whatever contexts that they are located, they will be an excessive over dependency upon the energies, risk-taking capacities, and the ability to obtain external resources of the owner manager. These qualities will shape the extent to which the business will survive and the manner which they will grow. They will be an overriding tendency for business strategies in these entrepreneurial firms to be expedient, short-term, opportunistic and pragmatic. There is a lack of internal resources and access to external resources that will enable such businesses to develop longer term business plans, and clearly defined, coherent business strategies. In larger organisations, and in particular cross-national businesses, there is access to resources and expertise but are generally unavailable to small business entrepreneurial firms. They are likely to be cadre of experts and professional managers with in-depth knowledge in such functional specialism, such as marketing, product development, and sustainable organisational growth. Their greater business credibility will usually allow that to have access to a wider arrange of external resources ranging from strategic business partners, and expert consultants through to financial assets ranging from loan to equity capital.

In each of type of enterprise, access to internal and external resources is overwhelmingly shaped by ownership, as the key, contingent factor, especially in the context of market socialism. It is argued in this paper that the hybrid of institutional and organisational factors shape Chinese course of entrepreneurship practices, in which it underlines prominent critical aspects affecting business creation, growth and closure that may differ from the western contexts. Drawing upon entrepreneurship process approaches, this research will testify the contingency model of entrepreneurial process and identify key components that have direct impact upon the process and growth outcomes. Given the multidimensionality and characteristics of firm growth, this case study investigation aims to provide more empirical evidence regarding business expansion, whilst gaining an improved understanding of how different types of firm grow under particular contexts and circumstances.

Three case study companies are selected from the textile industry in Liaoning Province China. These are (1) an indigenous entrepreneurial venture; (2) an overseas Chinese-owned foreign joint venture; and (3) trans-ownership venture. The textile industry has been the frontline landscape for government economic reforms since 1997 (Wang, 2001). In this sector, the privatization has undergone rapid progress. In term of ownership configuration of this sector, the number of private-owned enterprise accounts for 45.8 percent and 43.5 percent for foreign joint ventures whilst collectively-owned for only 4.7 percent (CTIA, 2002/2003). It offers an entrepreneurship-intensive and competitive industry context to assess the entrepreneurial process in different forms of enterprise. Furthermore, The China Development Report on the Textile Industry (2005) reveals that Chinese garment companies prevalently position themselves on low value added chain of supply. There is imperative need to reconfigure the industry chain construction, which will urge Chinese companies moving up to high value-added production from the low technology and labour intensity-based manufactory. What obstacles prevent them from adopting high value product-focused strategies? An insight into the contrasting case studies between brand-focused firm and production-based firms in this research may reveal an explanation on this question.

Literature Review on Market Socialism and Entrepreneurship Development

China's transition from a planned towards a market economy entails many surprising features. Whilst the communist regime remains intact, reforms have led to the gradual erosion of state economic controls 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 since the 1980's. China's hybrid economic system represents 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;). The development of a commodity market economy is a breakthrough from traditional thinking that a planned economy equals socialism and market economy equals capitalism. The institutional coexistence of the planned economy and the market economy means the government still greatly interferes in market exchanges and transactions, and political factors influence the direction of economy. After decades of socialism, the idea of free market and capitalism that the reforms advocated has challenged the conventional ideological foundations of socialist values and beliefs in both cognitive and normative ways in China (Lau et al, 2001; Harwit, 2002). North (1990) addressed that "although formal rules may change overnight as the result of political and judicial decisions, informal constraints embodied in customs, traditions and codes of conduct are much more impervious to deliberate policies." In the process of market transition, China has undergone the slow diffusion of entrepreneurship related progressive changes among some critical institutional actors, such as state-owned banks, government officials, tax officers and local cadres (Kshetri, 2007; Yang, 2002; Nee, 1989).

One of striking features of China's transformation from a command to market economy is the increased entrepreneurial activity with diversified forms of ownership on a freer market. It is evidenced that once-dominant state-owned economy has significantly declined (Liu and Garino, 2001; Liu and Woo, 2001; Zhou, 2003). A hybrid market structure has emerged which encompasses both state ownership and foreign-invested and private-owned enterprises. China's increasing reliance on private companies as a vehicle for economic growth and the creation of jobs is receiving increasing attention, as such firms tend to be outpacing, and growing at a faster rate than the economy at large (OECD, 2005). The entrepreneurial activity associated with such emerging private firms in China is therefore worthy of research attention. In the changing economic conditions of the global economy since 2008, the response of these entrepreneurial ventures will be highly significant for the economic prospects of China as over the next decade. The private sector was responsible for as much as 57% of value-added produced by the non-farm business sector in 2003 (Herd and Dougherty, 2005). The number of registered private firms rose from half a million in 1995 to approximately 12 million in 2005 and 29 million in 2008, accounting for over 70% of GDP. Employment in the private sector has increased from around 10 million in 1995, to approximately 71 million in 2008 - an almost seven fold increase (China Statistics Yearbook 2006 & 2008). As a result, the production and value added activities of the private sector have significantly contributed to the Chinese economy over the last three decades (Qian, 2003; Wu, 2003; Tenev, 2006; Ding et al, 2008).

It is important to address the evolution of ownership in market socialism as it has evolved from the past planned economy. Market socialism is the context for the growth of emerging ventures while economic reforms are the activator of such emergence. Unlike western enterprises which were born in a free capitalist market, Chinese enterprises grew out of socialist market transformations. Their management practices are significantly affected by this ownership paradigm and political economy. This research explores these issues on the basis of detailed case studies of three different types of business ownership.

Emergence of Chinese Entrepreneurs

Chinese entrepreneurs have emerged along with these changing economic conditions and with the development of private enterprises since the 1990s. These new entrepreneurs have often moved from secure jobs in small factories with hopes of making personal fortunes. They have been keen to cash in on market opportunities and have reacted skilfully to take advantage of ambiguous government policies, taxes, and regulations. In short, they are “buccaneer capitalists” as Lenin would describe such expedient entrepreneurial activity. These entrepreneurs are often poorly educated and manage their businesses very informally, on a rule-of-thumb basis. In this way, they operate similar to their western, small business counterparts.

These entrepreneurs have been offered major opportunities 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. Although this exposes the domestic private sector to competition from abroad, it also introduces new financial institutions to serve the needs of private business. Commercialization of the banking sector is a consequence of the emergence of private economy. The challenge for the Chinese government and for entrepreneurs alike is to ensure the domestic private sector has a solid economic basis so that it is able to seize new business opportunities. Until now, China’s homegrown 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, the exploration of informal funding sources and organic management structure. China’s ability to compete with foreign firms depends on the ability of these entrepreneurs to match best practices in the West. “The Chinese government places more reliance on entrepreneurs to keep the economy growing and create jobs”, as is evidenced in the Annual Survey by the All-China Federation of Industry and Commerce, a government body monitoring business (FT, 2004:20).

Recent policy changes have, however, provided businesses with access to new resources and capital. However, 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 fail to break their habit of giving priority to lending to governmental companies (McGregor, 2004; Dorn, 2004;). This is because they are a safer bet.

In these enterprises, the entrepreneurs are the “spirit” of the organization as they start up their businesses and take on the direct and central supervision of their staff. These owner managers often make all the decisions and bear all the risks for their business ventures. Their success or failure determines the fate of their enterprises. As Schlevogt (2001) suggests, the private Chinese organizational model tends to be small scale, centralized management and informal structure. It emphasizes strong entrepreneurial values on opportunity focus, enterprise networks and family values which are deeply embedded in Chinese management practices (Siu and Bao, 2008). The risk-taking opportunism and flexible management structures significantly distinguish their operations from large-scaled state-owned enterprises (Zheng, 2007). The privately owned enterprise detailed in the following case study demonstrates these distinctive characteristics in a very vivid manner.

Foreign-Engaged Joint Ventures

Foreign joint ventures are the outcome of foreign direct investment in China and have been a significant factor in the growth of China's market economy (Chung and Bruton, 2008). At an early stage of market reforms, because of government encouragement, sino-foreign joint ventures were the dominant option for companies' entry into the Chinese economy. However, since 1997, wholly-owned foreign joint-venture enterprises have become the preferential choice mainly because of foreign frustration with joint ventures with Chinese partners (Yan and Warner, 2001); particularly, after WTO accession, and as China has become a more market-driven country. Davidson (1987) pinpoints the factors that determine foreign joint ventures' performance as organizational cultures, administrative structures and management philosophies. It is argued that these factors are often combined as the 'One Bed, Different Dreams' symptom (Vanhonacker, 1997). Moreover, the 'veto-power' of Chinese partners in joint ventures is often regarded as a hindrance for foreign partners in their strategic decision-making (China Joint Venture, 1996b). All these seem to encourage foreign joint ventures to take 'go-it-alone' strategies for running businesses in China. Child (1998b) 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, albeit with different emphasis in different areas.

Some studies reveal that, at a large extent, the management practices of these foreign joint ventures have developed a hybrid model in 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). 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. Indeed, Cooke (2004) addresses that the managers who are delegated power and autonomy play an important role in shaping management practices of foreign joint venture. Their decisions and knowledge determine the performance of businesses. Indigenous model of leadership appear to have become more common among multinational corporations and business joint ventures in China recent years, largely due to the fact that many expatriate-based management systems have failed to take root and have caused local resentment and resistance (Cooke, 2002; Legewie, 2002). Proponents of the ‘convergence’ hypothesis emphasize that there is a tendency for countries to become more alike in terms of management policies and practices under the impact of globalization and emergence of international ‘best practices’.

Foreign direct investment in China has played a significant effect on human capital formation, particularly on skill formation, at least for the period 1995-2001 (Basu and Yao, 2009). Foreign partnerships seem to enable access to advance knowledge and external resources that may be transformed into competitive advantage for small businesses in China. In this paper, the research that focused on small-scale joint venture and run by overseas Chinese entrepreneurs, aims to explore the impact of foreign-engaged ownership form in shaping small business development. This is done by adopting a contingency approach to assess the relationship between ownership form and organisational characteristics of entrepreneurial venture.

Restructuring of State-owned and Collective-owned enterprises

Following the policy advocacy of Chinese central government, privatization of state sector enterprises as the upshot of institutional reforms echoes across China since the late 1990s (Wu, 2003). This movement aims to transform inefficient and non-market-oriented state-owned and collective-owned enterprises into competitive market players with entrepreneurial orientation (Lardy, 1999). It leads to restructuring and readjusting the configuration of state-owned economy. According to a report from All-China Federation of Industry & Commerce (AFIC), approximately 20.3 percent of private enterprise grew their businesses through merger with state-owned or collective-owned enterprises in 2006. This type of mergers and acquisitions (M&A) form an important aspect of entrepreneurship practices under market socialism. Given the reasons of economy of scale, low-cost expansion and synergy effects, private enterprises are rather keen on tendering for such ‘trans-ownership’ M&A with state or collective-owned enterprises (Wang and Han, 2008). Access to substantial resources, such as land, facilities, finance and skilled labour force, has been a critical issue for private entrepreneurs. However, state-owned and collective-owned enterprises are advantaged to the possession of such production factors and resources. Thus this has been regarded as an effective strategy of quick growth in which it enables entrepreneurs to access scare resources and political capital in China. In this paper, one case of trans-ownership is investigated to understand this particular phenomenon of emerging venture.

Theoretical Foundation

Cultural Contexts

In a contingency perspective, entrepreneurship theory should provide insights into the situational and contextual factors. One prominent contextual factor is culture. It is argued that cultural context shapes the perception and interpretation of organizational change and constrains choices concerning how to manage it (Faucheux, Amado, and Laurent, 1982; Triandis, 1994). Conceptions of change determine choices concerning an entrepreneur’s decision. Budhwar and Debrah (2001) propose that an analytical distinction should be made between different levels of context, including the national cultural context, industrial context and organizational strategy-level context. These ‘context-specific’ and ‘culture-bound’ factors influence the nature of entrepreneurial practices.

Entrepreneurship Process Approaches

Entrepreneurship is a multidimensional phenomenon and there is little agreement on common dimensions characterizing it (Gartner et al, 1989). New venture creation involving individual, organisation and environment is an integrative and synthetic process (Gartner, 1985). A process model from Bhave (1994) suggests the use of business concept, production technology and product as the preliminary set of core dimensions. It emphasizes that the entrepreneurial process is iterative, continuous and should be reviewed as a function that can be carried out by an organisation. A more integrative model of the entrepreneurial process is provided by Morris et al (1994), it is built on the concept of inputs to the entrepreneurial process and outcomes from it.

Opportunities, individuals, ideas, organisation and resources are regarded as the five components of inputs through the process. The outcomes are the number of events indicating the level of entrepreneurship being achieved, which can result in one or more going ventures, value creation, innovative products, profits and firm growth etc. Further study from Wickham (2006) advocates four interacting contingencies in the process of entrepreneurial value creation as the entrepreneur, a market opportunity, a business organisation and utilization of resources, which emphasizes the interactive effect of these four dimensions in a dynamic process that success fuels success. It furthermore addresses that the entrepreneurial organisation must 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. However, as Wickham suggested by himself, further research may use case studies of each type of venture to identify how this process differ for different types of entrepreneurial venture. It requires a more comprehensive explanation of interactive relations among entrepreneur, opportunity, organisation and resources under particular circumstance and organisational context.

A more detailed process approach to entrepreneurship is the multidimensional approach which emphasizes specific factors relating to the dimensions of individual, environment, organization and the venture process (Bredley, 1990). It further develops entrepreneurship as a dynamic and interactive process. Storey (1994) postulates the characteristics model of growing entrepreneurial ventures which suggests three integral component sets that drive small firm growth: characteristics of the entrepreneur, characteristics of the firm and characteristics of growth strategy. A number of factors are identified in which will influence the firm growth and especially used as predictive model to distinguish the growing from the decline. However, it is argued that it may be possible to identify key success factors that affect the growth of SMEs, it is unlikely that a comprehensive model with predictive capability will emerge (Smallbone et al, 1995). Deakins and Freel (2006) comments that the inclusion of individual variables in this characteristics approach is compelling, in aggregate, they probably impact upon firms in much the way Storey envisages. At the firm level, ownership factor in particular, a number of academic studies have indicated that a considerable amount of small firm growth is inorganic (Deakins and Freel, 2006), for example, growth through mergers and acquisitions, through joint venture development, by individual entrepreneurs, of other distinct businesses.

Regardless of the merits of identifying portfolio entrepreneurs and shifting the focus of research from firm-level to individual-level analysis, the substance of the research findings has not advanced sufficient explanation of the process through which the wealth and capital are accumulated (Scott and Rosa, 1996). Furthermore, although numerous studies have testified a strategy-performance relationship, findings are significant more for establishing the importance of a strategy than for telling what strategies to follow under particular circumstance (O'Farrell and Hitchens, 1988; Deakins and Freel, 2006).

Contributions of this research

This research extends earlier work on entrepreneurship process approaches to firm growth by improving an understanding of interrelationship between firm's organisational characteristics and performance outcomes under market socialism in China. Drawing upon a contingency perspective, the entrepreneurial process contingencies in relation to growth or failure are assessed in three emerging entrepreneurial ventures of different ownership. This empirical investigation attempts to identify the key parameters that have a bearing on the growth outcomes in the textile industry. With inclusion of cultural and institutional contexts, this research explores how individual entrepreneur and organisational factors interact in a longitudinal process in different types of ventures under particular circumstance.

Methodology

The case study approach is used in order to provide insight into an issue or refinement of theory (Yin, 2003). The use of case studies is suitable for exploratory research and it is satisfying way of adding to experience and improving understanding (Stake, 1995). The fieldwork was conducted in 2006 and total 18 open-ended interviews were completed with semi-structured questionnaires. Three case studies were selected for comparison, because of their similarity in size, age, sector, and core business (see Table 1). In respect of performance, 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.

Table 1. Key Attributes of Three Case Study Companies

	Privately-owned Firm	**Foreign-Owned Joint Venture**	**Private-Collective merger**
Ownership	Indigenous owner-entrepreneur	Foreign-engaged joint venture	Private-collective joint venture
Size	200 employees	200 employees	600 employees
Age	10 years (1996 - 2006)	9 years (1997 – 2006)	5 years (2003 – 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 to Japan	Brand management and domestic marketing	Manufacturing and export to South Korea
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% (2003-2005)

<u>The Collection of Data</u>

In each of the three case studies, six open-ended interviews were respectively conducted with key informants in each organization's management team between January to May 2006 (see Table 2). 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 often more useful for the purposes of data collection. This is particularly the case for the study of entrepreneurial behaviour since informant's assumptions have to be probed and explored. However, the outcome can be a catalogue of views, observations and accounts that are random, unstructured and without value for comparative or analytical purposes. For this reason, based on Wickham's contingency process model, key dimensions illustrated as below are established to guide data collection and analysis in a systematic manner.

- Ownership (privately-owned, foreign-engaged joint venture, collectively-owned trans-ownership)
- Entrepreneur (start up experience and motives, education, skills)
- Opportunity (market gap and strategic position)
- Resources (financial, networks, human capital, intellectual)
- Organisation (structure, strategy, management & leadership, culture)
- Learning (knowledge accumulation, training and skills development)
- Outcomes of entrepreneurial process (profitability, growth or failure)

Multiple sources of evidence were used in this investigation, such as 1) semi-structured interviews, 2) documents from company archives; 3) quantitative financial data; 4) non-participant observation. Semi-structured, open-ended interviews were tape recorded and later transcribed. A chain of evidence was maintained via explicit links between the questions asked, the data collected, and the conclusions drawn. Furthermore, in order to obtain a longitudinal view on the outcomes of entrepreneurial process, three case companies were revisited in August 2009 and the key informant in each company was interviewed to discover the ongoing development of the venture (see Table 2).

Limitations

This research is based on a small number of case studies, thus the limitations are inevitable as they cannot cover the whole variety of management practices. I have taken this factor into account when interpreting the findings. However, case studies allow for the analysis of complex issues, such as people's perceptions and decision-makings, strategies and systems, management processes etc requiring a qualitative approach; therefore qualitative data is able to explore these entrepreneurship growth processes in depth. Further research on statistical significance of the conclusion would be necessary to improve our understanding. My intention in this research is to explore, if only by reference to a small number of case study enterprises, emerging growth process. If this stimulates more detailed studies of evolving entrepreneurial ventures, this research will have served its purpose.

Table 2. List of Interviewees in the Three Case Study Companies
(January – May, 2006)

Case 1. Interviewees in Foreign-Owned Joint Venture	Case 2. Interviewees in Indigenous entrepreneur-owned Firm	Case 3. Interviewees in trans-ownership firm
1. President & CEO	1. Owner Entrepreneur	1. General Manager (rep of collective ownership)
2. General Manager	2. Office Director	2. President (rep of private ownership)
3. Chief Designer	3. Vice-General Manager (manufactory and marketing)	3. Operations Manager (manufactory & logistics)
4. Marketing Manager	4. Marketing Manager	4. Marketing Manager
5. IT Manager	5. Finance Director	5. Accounting Manager
6. Human Resource Manager	6. Personnel Manager	6. Personnel Manager
Revisit in August 2009		
Case 1. Interview with CEO	Case 2. Interview with owner entrepreneur	Case 3. Interview with former operations manager

Background and Ownership of Three Case Studies

<u>Case 1. DALI</u>

The case of Dali Cashmere, as a privately-owned enterprise, is a typical entrepreneurial company. The owner as a risk-taking entrepreneur who started his business in 1996 and developed the company from nothing to a company equipped with RMB50 million (US$6 million) assets and 200 employees. Its annual sales in cashmere product reach to RMB30 million (US$4 million), including both overseas and domestic markets. The ownership in this case is simple and clear. It represents a driving force in the private sector and an outcome of marketization and privatization. Its ten-year's development and success has reflected the rapid growth of the private sector in contemporary China under market socialism.

Case 2. DSF

The case of DSF is an American-Chinese joint venture, founded in 1997. Sunfed Group U.S. invested 30, 000 US dollars capital with its Chinese partner, Mr. Li, an overseas Chinese, who brought into this venture 36, 000 US dollars capital to set up a joint venture company in the clothing business. Affiliated with the Sunfed Group in the U.S., DSF has established a branding reputation in China for its sophisticated style and fine craftsmanship. The brand has become very popular in Dalian and it has consecutively made the top list in recent Dalian International Fashion Exhibitions from 2003 to 2005. It was awarded the "BEST OF TEN" ladies fashion in the ninth, tenth and eleventh Dalian International Fashion Festivals with its excellent styles and high sales. As a distinctive professional women's wear company, the DSF collection is outstanding with its fresh and bright looking, unique designs and long lasting styles. It breaks through the boundary between “professional” and “informal”; professional but stylish. DSF is a brand-focused company and produces high value-added products. In eight years, it has acquired over RMB40 million assets (US$5 million) with annual sales RMB99 million (US$12 million) in 2005. Despite this, it remains small with 200 employees.

Case 3. SLAC

The case of SLAC, as a trans-ownership enterprise is the merger of private ownership and collective ownership in 2002. This case represents a typical form of business venture in contemporary China resulting from market transformation. It was originally founded in 1956 as a collectively-owned enterprise in the state sector. Through merger in 2002, private ownership became involved as the dominant shareholder while the collective ownership retreated as secondary shareholder. A mixed management model is prominent in this case company. It currently has 600 employees and fixed asset value of RMB20 million (US$2.4 million) in equipment and buildings. This allows for an annual production capacity of 1 million garments. As a professional garments company, it integrates manufacturing, marketing, retailing, and export & import functions. Its broad product portfolio covers women and men’s suits, shirts and trousers to causal wear, fashion clothes, Jeans and snowsuits. Its main markets for sales comprise domestic cities and overseas countries, such as Japan, South Korea, Europe and USA. SLAC owns two patented trademarks: “Anna Lee” for woman’s fashion clothes and “Yawenshi” for man’s suits and shirt.

These brands are only for domestic market sales and account for only a minor portion of all profits. Its major profits are from manufacturing and processing garments for foreign brands.

Data Analysis and Discussion:

Entrepreneur

The indigenous owner entrepreneur in the entrepreneurial firm, Mr Zhu, is a highly entrepreneurial-oriented and achievement-driven person. He left his manager position in a state-owned company in 1995 due to the lack of autonomy and rewards, and started his own business using all his savings $2500 USD. He utilized his network and personal connections to obtain sales credit and personal loans for his small retail shop at start-up stage. He further set up a manufactory in 1997 to self-supply cashmere products to his own retail outlet. Based on a down-to-earth approach, he grew his business to a company with 200 employees and total assets of $6 million USD from 1995 to 2005. Through acquisition of a state-owned manufactory in 2008, he has expanded his business five times bigger in production scale and employee size. Though he never been to university for a formal education, his experience and practical skills enabled him to achieve a success in his entrepreneurial venture. This type of ownership engenders an owner-dependence pattern of management.

The foreign joint venture is owned by an American investor 40% and an overseas Chinese, Mr Charlie Li, 60% of shareholding. The form of ownership is a joint venture in capital investment rather than management participation. Mr Li and his wife as teamed entrepreneurs are in charge of management of DSF with localized autonomy. Effective communication and trust between partners are the foundation of this joint venture. As Canadian-Chinese, Mr Li and his wife are entrepreneurs with high education qualifications, PhD in Philosophy and MBA degree. Their motive to start entrepreneurial venture is driven by high achievement need. They used to have respectable careers in Government Trading Agencies in Canada, but decided to start their joint venture in China when they identified an appealing opportunity and market gap in fashion industry in 1997. This type of ownership allows the access to foreign capital and western style of management approach.

The trans-ownership collective company was owned by two partners, a private women entrepreneur, Ms Lee, 51% of shareholding and collective ownership 49%, represented by local government appointed managers and retained employees. This merger is the result of privatization in state sector by which effective management and market incentives drive behind this movement. This trans-ownership is based on mutual benefits for both parties. Collective company entails historical heritage on key production factors, such as land, factory facilities, production capacity and labour, which are attractive to the private entrepreneur who does not have sufficient access to such resources. However, inefficient management and heavy loss are the issues in collective company in the state sector. The merger with privately-owned company aims to bring market mechanism and profitability to the collective ownership, as the private entrepreneur owns wide overseas clients base and market networks which can give orders and contracts to the manufactory. It is assumed that market-driven and profit-oriented entrepreneur should be a perfect candidate to inject market incentives and turn around the loss situation of collective company. This type of ownership permits reciprocal access to scarce resources for both parties.

Opportunity

Economic reforms of market economy that initiated in the early 80s granted the legitimate growth of private businesses and foreign investment. The textile industry had always suffered losses and 54% of state-owned and collective-owned enterprises in the textile industry were in debt at a rate far higher than the average for state industries at large (CTIA, 2000/2001), thus changes and improvement were imperative. During the 90s, the government encouraged the privatization of smaller, non-strategic state-owned and collective-owned enterprises to transform into private enterprises (Zhang, 2002; Wu, 2003). The case of collective-owned company, SLAC is the result of this policy initiative. It has attempted to combine private ownership with collective ownership as the experimental path to transiting inefficient state enterprise into market-oriented entrepreneurial venture. The private entrepreneur in the trading business in this case owns market network of overseas buyers and distributors, but lacks physical resources such as manufacturing facilities, production equipments and land that the collective company possesses. This joint ownership venture is regarded as an opportunity for the collective company to revive and a growth strategy for the private entrepreneur to rapidly expand.

Dali Cashmere Company was created due to the market change-led opportunity. The indigenous entrepreneur left a secured job in a large scaled state-owned cashmere manufacturing company and started his own business in 1996 with all his savings – RMB20,000 ($2,500). With his profound experience in cashmere products, he identified the 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' connection. He started from a retail outlet to sell cashmere sweaters and gradually developed his own manufacturing workshop to produce his own products. His well-connected relationships with key people who could provide personal loans and supply scarce raw cashmere material played critical role in this start-up success. China's WTO accession further provided opportunity for this entrepreneur to supply overseas markets. Dali developed major supply relationships with Japan and America buyers in 2000, which expanded his annual sales growth up to 70 percent on average between 2001 and 2005.

In the textile industry, majority domestic firms are crowded in the low end of supply chain. In the branded clothing market, the branding goods in women design clothes are growing demands in China. As the Development Report of Clothing Industry (2005) indicate that 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 as No. 3 country for luxury goods. It is predicted that the luxury goods market in China will continuously grow to be No. 2 in the world in the next 10 years. Foreign Joint Venture, DSF was established based on this attractive market gap. It 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, which requires constant and extensive investment over a long time period. This venture puts its brand at the heart of marketing and business strategy. Its growth is driven by high value added branded goods. As Mr Charle Li, the president comments:

> *"We target the luxury consumer market as China's economic growth creates this demand. We aimed to establish a woman's brand to take a leading role in women's wear when we started this company. Our strategy is to focus on marketing and branding, and pattern of our operation in priority order is 'marketing – design – manufacturing – outsourcing'. We made our brand in women wear in the last 10 years, but the next goal is to*

create a chain of by-products such as adorning jewellery, bags, hats and shoes in the same brand or different names."

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).

Due to the previous work experience, the indigenous entrepreneur who left the state-owned enterprise, developed unique connection and access to cashmere material supplier, which enabled him to identify the opportunity of cashmere product on market place. The availability and quality of this scarce natural cashmere raw material supply is the prerequisite for his business creation and growth. However, due to lack of financial resources, his firm grew organically in the first ten years 1997-2007. Encouraged by the institutional policy change and continuous market reforms in the state sector, the entrepreneur adopted an acquisition strategy to engage in high growth in 2008. Although the strategic focus of this growth is on advancing production technology and economics of scale, this growth choice seems to align with its low value added product strategy as it relies on high volume of sales and production capacity to be profitable and increase the likelihood of survival. In comparison, the trans-ownership collective company adopted alike strategies of production-based growth. Although the trans-ownership was advantaged for access to physical and financial resources through the merger with the collective company, it didn't guarantee its success rather that it failed after five years. This result shows management capability and consistency have greater impact than resource and strategy factors.

The foreign joint venture has access to foreign capital and human resources in the start up stage in which it seemed to give firm advantage and capability to adopt a high value-added product strategy. In alignment with this strategic choice, its growth has been navigated through the development of intellectual capital such as brand and customer base, in order to secure the high value adding and enhance brand management. The well designed learning process has enabled such resources development, in consequence, it further developed its unique capability and competitive advantage. The entrepreneurship process is an interactive and dynamic process. The fit and alignment of key contingencies is likely to lead to satisfactory outcomes.

One shared common character in all three companies is that all entrepreneurs utilize personal connections and networks (Guanxi) to achieve particular objectives and access to the needful resources. It seems to suggest the overall dependence on guanxi culture in all types of business venture. However, it is noted in the case studies that the degree of dependence on guanxi differs by how entrepreneurs set their ethical standards whether it should be operated in a legitimate or non-legitimate ways. The degree of morality seem to influence the use of 'guanxi' as evidence in three cases shows foreign joint venture operates in more legitimate approach compared to entrepreneurial firm and collective ownership. For example, the use of bribery is accepted by private entrepreneur in trans-ownership company but rejected by foreign joint venture. The dilution of guanxi dependence seems to loom up as the creation of a market economy imposes "standardizing" global similarities in business structures and processes that cut across national cultures. Further empirical evidence will be required to justify such 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 the three companies, the means by which they expand and the mind-sets of those who manage their operations differ due to their different ownership forms. 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 position and high value product development. It has given priority to developing brand equity as the core of the company's marketing strategy.

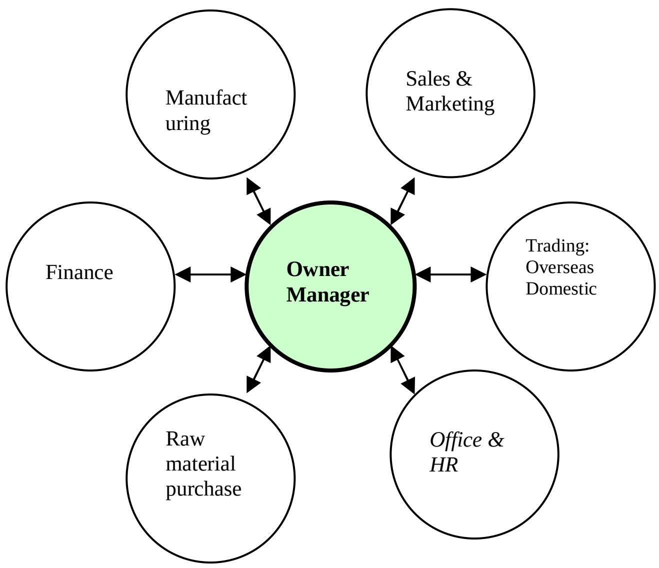
Both the owner-entrepreneur firm and trans-ownership company have adopted an aggressive approach to its expansion. However, by contrast to joint venture, there is no explicit strategic long-term planning in the latter two companies. They adopt a production-oriented approach providing ‘reasonable’ quality for the high-volume retail market. They broaden the product portfolio to increase the variety of categories and options on styles and design. They both position themselves at the low end of the industry chain, profiting through processing and producing foreign brands, but using foreign agents and distributors to expand orders and purchases internationally to achieve sales volume. They both have developed domestic brands for their own designed products, but due to the lack of an effective marketing promotion and strategy results in very limited market recognition of the brand. A majority of their revenue comes from overseas’ outsourcing. In comparison with the foreign joint venture, the private entrepreneurs are limited in the knowledge of marketing and branding.

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 two case studies demonstrate that the patterns of organisational structure are also determined by type of ownership and strategic choice.

The organizational structure of the owner-entrepreneur firm is almost non-existent. It has a flexible and fluid structure designed as owner-centred management (see Figure 1). 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 them to perform them. Job specialization is relatively low compared to the foreign-owned joint venture. Although this firm has created woman cashmere products, however, there is no professional designer working on the design of women’s wear but are ‘copycats’ of other top brands’ seasonal design. 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. No hierarchy exists, as the proprietor is the sole authority for all working procedures. Although this may provide absolute operational flexibility, the company ceases to function when tasks become complicated and when the proprietor is absent. Often the owner is saturated with too much information, forced to make too many decisions which results in exhaustion and the incapability to exercise total control. As he says:

> *"I have to keep direct control on every procedure to make sure each step is done properly so that the final result meets my expectations. I always believe that if the procedures are right, the outcome will be right. Sometimes I really feel very exhausted, because everything depends upon me."*

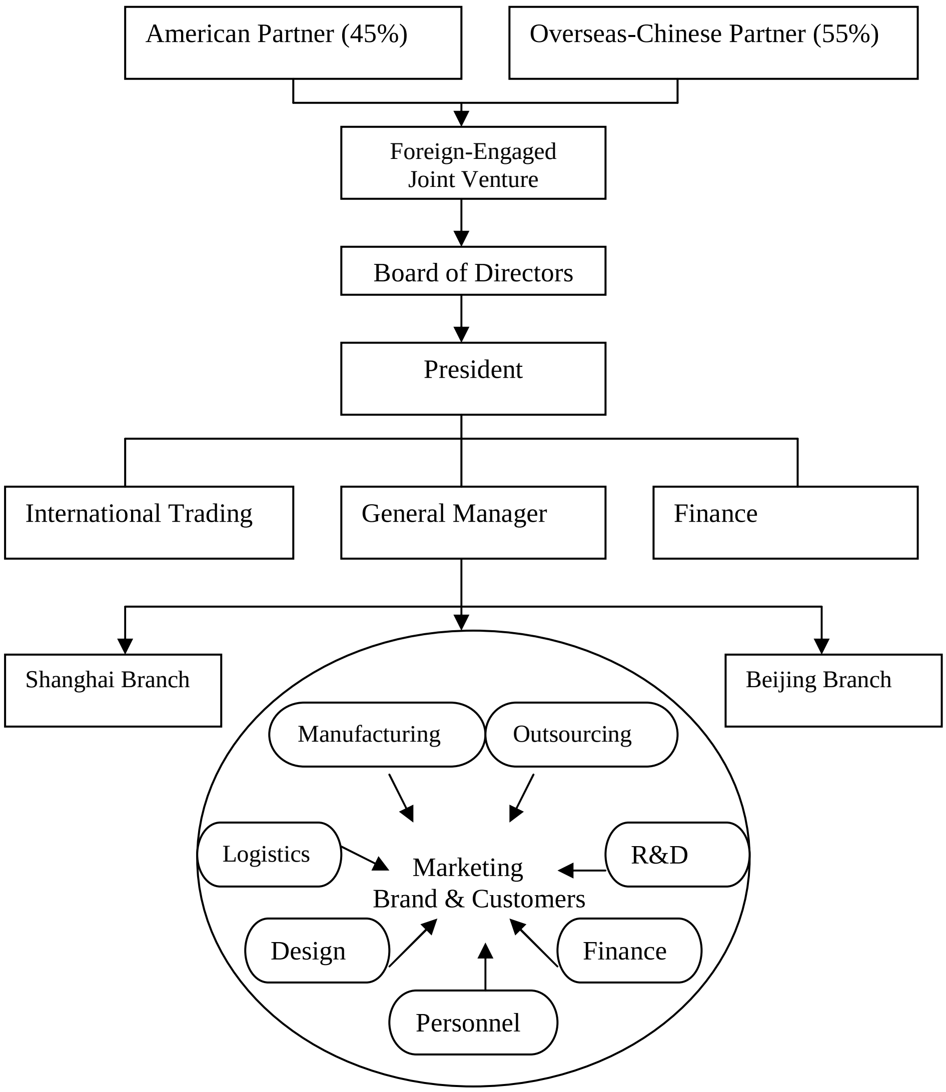
Figure 1. Organizational Chart of Owner-Managed Indigenous Firm: Owner-Dependent Structure



The foreign joint venture is characterized by a market-focused structure to meet its brand strategy, featured by operational flexibility in its marketing activities (see Figure 2). Such a relatively "open" structure facilitates personal development embedded with a high level of concern to promote intrapreneurship. All the operations and management of the company are focused on customers' needs and support services. Work relationships in the marketing function are informal and based on teamwork but with sales personnel given autonomy to achieve their sales targets. In other departments, such as finance, personnel, technology and manufactory, hierarchy and authority are stressed by top management. Formal rules and policies are enforced and descended from top to the lower levels. The top managers exercise total management control with an emphasis on the formalization of management and systems. Authority is stressed by the General Manager in order to ensure the implementation of strategic plans. However, 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. Larry Chen, the Marketing Manager comments;

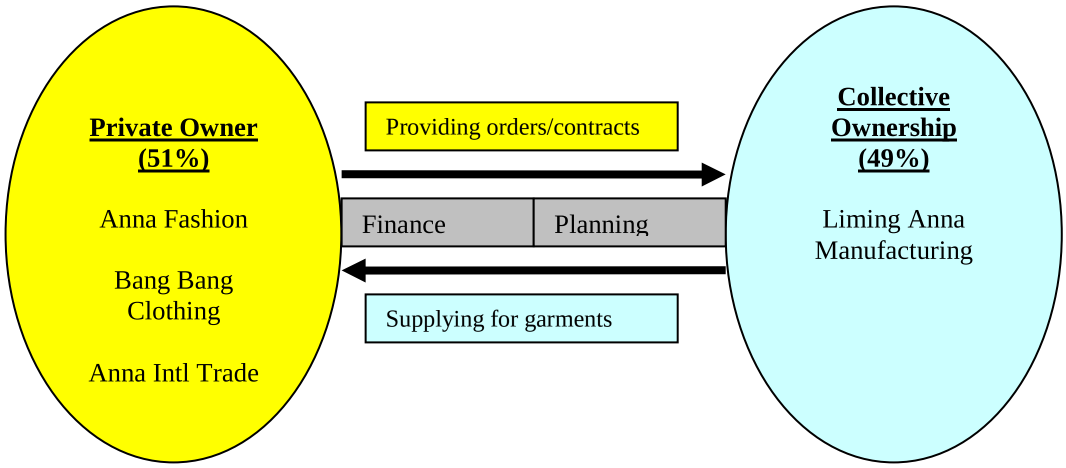
> "*Marketing is the main activity of the company. The product has priority in coordination, an absolute priority, and other departments must collaborate with product marketing. We have the most complex structures in other departments; the responsibilities for each job and each unit are clearly defined with given duties to carry out the objectives.*"

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



The collective-owned company is characterised with two coexisting but conflicting ownership, private owner and collective-owned. Although the merger of a private company with a collective-owned company has created shared benefits and reciprocal resources for both parties, however, private owner is prone to encroaching upon the collective property ownership and this gives birth to increasing tension and disputes in management, as in this case study. To sum up structural relationship, a barbell structure illustrates in Figure 3 - a split weight emphasis in two functions of the organisation; one on marketing & trading and the other on manufacturing. Such ‘barbell’ structure reveals separate entrenchments of dual-type of ownership – private owners and collective ownership. It may suggest that a full privatization would be a better choice than the coexisting of two ownerships.

Figure 3. Organisational Chart of Trans-ownership Collective Company: ‘Barbell Structure’ of SLAC



In this structure, private owner’s business provides orders and contracts to keep collective ownership manufactory and finance control is highly utilized in the management process. There is a centralised accounts office for finance and production planning to which the three main divisions must report all their expenditures. The private owner supervises all cost claims and gives sole authorization for approval. This tight control on finances is also reflected in the purchasing of raw materials. Budget planning is required on both a monthly and an annual basis for operational and manufacturing costs, so that the private entrepreneur can predict and control the amount of expenditures. Mr. Tang Shaokui, Manager of Operations in Liming Anna Clothing, comments on this accounting system as, "*We plan everything needed in the company and apply for authorization on every cost. The president and the general manager exercise tight control. As a result, we are required to minimise all our costs but also to increase production. Strict cost control and poor work condition are the main issue 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. 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. Authority is delegated to the middle managers that are expected to take decisions and determine procedures in ways appropriate to achieve their final objectives.

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 an entrepreneur with strong personal capabilities, which influence everyone around her. She is very authoritative in insisting on her ways of doing things. She is very directive to teach us to do new things. We respect her as she has profound knowledge and experience.*"

The Manager of IT comments:

"*Leadership is strong. Our president is a democratic leader, welcomes new ideas and different opinions. He has very cutting-edge concepts and vision. He represents the American style of management – open and creative. The general manager makes sure things get done and she is very good at creating cultural values for the enterprise. Both of them are very intellectual and knowledgeable. They team up a good mixed style of leadership in the company*."

By contrast, the owner of the entrepreneurial enterprise 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. His managers need to constantly report to him. He exercises total control over his employees and all final decisions are made by himself. The owner is a selfmotivated leader, but his staff do not have the same high level of motivation due to their lower rewards in this entrepreneurial firm. However, appeals to family values, cohere employees together. He is generous to show his care to his employees, which psychologically commits his employees to do things gratis. He acts as a father to his employees as children. As the marketing manager, Ms Jia says:

> "*We work together as a family. His personality is very prompt and decisive. He cares for us and participate with us in our work. He can democratically discuss with us and you can feel his affinity*."

The Vice General manager, Ms Xu comments,

> "*Mr Zhu knows how to put people to good use. He is an expert in cashmere material and spinning technology. He is good for getting things on hand quickly. He 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 is the determining factor for the success of the company. His explicit leadership style is to influence people by heart and affection, not by rules. This informal leadership is the basis for his unassailable authority. The owner entrepreneur is directive in daily routines in order to exercise his total control over his company.

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

The guiding concepts, values and beliefs underpinning each type of these business ventures are in significant contrast. 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 employees to '*excel themselves to be creative*'. Management has adopted western cultural values with the absorption of western management philosophy and ethics. For example, an emphasis on learning from western advanced management is promoted among employees and deeply embedded in the systems. For example, 'coffee culture in communal areas for discussion of ideas' and 'behavioural manners' are symbolized such as green environment concern and charity donations. The philosophy of performance management is to stress self-oriented, result-driven performance. As the marketing manager, Larry Chen comments:

> “*The company just tell you the objectives, the processes and decisions are left to us to determine. Although the company has taught us so much about new management concept and theories, we have to digest them by time and through practice. We feel the company should provide us with more support in process management, but actually they leave the work completely to us to make decisions, developing the tasks and responsibilities to first-line employees. The president only looks to the results, and the general manager takes a more participative role in daily operations, but she is more likely to be in a supervisory role rather than supportive.*”

The organizational culture of this joint venture focuses on learning and knowledge advancement. The willingness and exigencies to learn new things have become both formal and informal norms for staff. Every departmental manager in their interviews expressed the demand to acquire knowledge as part of their work routines. Intensive formal training programs are embedded in the organizational structure, systems and strategy. 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’ core corporate values and philosophies. Knowledge is highly respected in this company, and creativity and innovation in marketing and technology are a key focus in employees’ training. This is the key value in the company’s culture and this creates an environment to facilitate knowledge accumulation and further develop capabilities, encouraging creativity and innovation among staff. An emphasis on personal autonomy is regarded as an essential philosophy underpinning the company’s ethics. It provides a precondition for advancing high market performance. A learning culture and a skilled work force are the core competence to enable the foreign joint venture to position itself at the cutting edge of its brand development.

Comparatively, the management philosophies of the entrepreneurial firm focuses on the importance of conventional Chinese culture values, such as nepotism, family values, harmony, and compliance. 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 fully comply with his direction and decisions. The proprietor is at the centre of a power culture and imposes total control throughout the whole organisation

(Hardy, 1993). A family atmosphere is successfully cultivated by his leadership style. His emphasis on this type of business culture incarnates the importance of his authority as the centre of this 'family'. Furthermore, this family culture also enforces the informality of the business and reinforces his employees' dependency on him. As he emphasizes:

> "*This company is completely mine, and I have sorted them (the board of directors) out by giving them enough money to stay away. I am the person who makes all the decisions. I do not like others to be involved in the decision-making and telling me how to run my business.*"
>
> Further he adds: "*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.* "

The trans-ownership company embodies the hybrid of different values and cultures. The President represents the values of private ownership; the General Manager those of the state bureaucrat style and socialist ideals; the vice general manager, collective-ownership values. As a consequence, inconsistent values, beliefs and organisational cultures complicate the management style and create tensions among owners and employees. Market transition from a planned to a free market economy changes 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.

The private owner is purely market driven emphasizing profit maximization and cost control. She believes in capitalism value and practises the atrocious exploitation of employees. Her financial control strategy, to certain extent, violates employees' legal welfare and work conditions, challenging the morality of business conduct. The emergence of private enterprises was initially the outcome of a non-legitimate environment consisting of market gaps. These generate non-legitimate ways in business operations. Because of a prevalent social culture in favour of trust and personal relationships, private entrepreneurs tend to ignore legitimacy in business and instead, try to find '*cheap*' and '*short-cut*' ways to success, for example 'the use of bribery'. They strongly believe that the informal power of relationships is greater than legal and contractual processes. Such values direct their behaviour to manage their businesses in non-legitimate ways, which may contravene the legal frameworks. As Operations Manager, Mr Tang comments:

"*We only have one day off in two weeks due to work pressures. We often work over weekends, and when there are urgent orders we have to stay late at night. But these extra hours are not paid for. Particularly, we have a very high turnover rate of low-skilled worker at frontline of production as their working conditions are very poor and paid with only minimum hour rate. The company relies on exploiting employees to earn maximum profits. The collective ownership may provide us a job for survival but it does not allow us any better life than survival*."

Although the culture in SLAC is mixed with both socialist and capitalist values, as market reforms deepen, the capitalism values are becoming dominant in driving the enterprise. Nevertheless, this case comprising of conflicting values and styles embodies the diversified interests of shareholders and hostile attitudes in management control, when compared to the other two types of enterprise ownership; the indigenous entrepreneur-owned and foreign joint-venture in our case studies. Such contradictions in values and culture engender irredeemable management conflicts and hostility between owners and employees, which eventually lead to the closure of this venture in 2008.

Learning

An organisation is regarded as an accumulation of knowledge and learning (Haberberg and Rieple, 2001). The entrepreneurial organization must be a learning organization to reflect on the outcomes of success and failure in order to modify further responses in the light of experience (Wickham, 2006). It is a critical process in entrepreneurial ventures as how knowledge is accumulated impacts on their ongoing responses to market changes and the way of growth. Through case study investigation we attempt to examine how different types of entrepreneurial venture learn and what critical factors are likely to impact on the learning process.

The entrepreneurial firm, DALI emphasizes experience-based learning. In line with this philosophy, training is often designed on learning on the site. For example, the owner entrepreneur Mr Zhu, organizes regular visits for his management team to other efficient manufactories with advanced management systems and technology application. By talking to their advanced counterparts and through observing, they learn how it operates and motivate employee to thinking of what can be applied. Ms Xu, 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 have impressed us very much. We know where we are and how much difference there is between us and those modern corporations. We are motivated to work harder in the practice.*"

The entrepreneur himself is a reflective type of learner. He often reassesses what he has done and always thinks what he could do better. He has been trying to improve himself based on reflection and being open mind to new things. However, he does not advocate formal training and he believes that is costly and useless. The training programme in his company is informal and random depending on the needs of specific task. Experienced staff are expected to take responsibility to train junior/new members. The entrepreneur, Mr Zhu also expresses his problem:

"*A major challenge for me is to develop a well-known brand that seems very complicated. My 'Liaonan Wang' brand is only known in this city and I know it still requires lots of work in marketing, but I don't have the right people to do this."*

Due to the cost concern as well as no recognition of the need for formal training, company has no planning for any systematic training programs to advance marketing or product management knowledge. The owner's philosophy and behaviour determines the organisational processes and cultural norms.

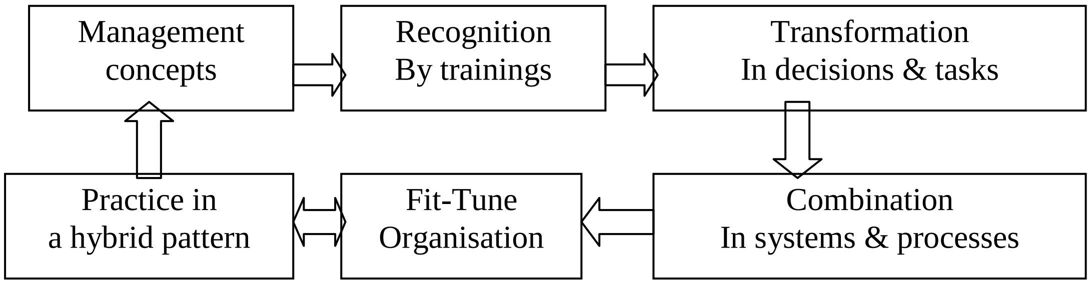
In contrast, the foreign-owned joint venture has clearly defined HR strategy and personal development planning. A knowledge-based learning system is well established and constant learning is incumbent upon all employees. The need to retain its competitiveness is a major challenge because the company has positioned itself at the cutting edge of knowledge in the high value-added end of the textile industry. This seems to create tensions because of the company's demands for creativity and high skills. Although more intense education and training is designed to enhance skills of employees, their capacity to digest such knowledge is often restricted. As the President 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.*"

> The marketing manager also says: "*This company has very advanced management concepts and philosophies which encourage us to learn management theories that we never looked into before. However, much has yet to be done and a complete motivation system to retain highly skilled talents is in demand, although this company has been very successful in building brand image and culture with precise market position. Further development will put challenges on our human resource management. For instance, responsibilities that managers carry out need to relate to specified rewards, and we need to know what we can achieve and what we can do.*"

The General Manager with PhD qualification, together with a high capability in management, has enhanced the training and teaching culture in DSF. As she explains, her role is more like a preacher and teacher to direct employees. They convert management concepts and theories into practice and test them in the Chinese market. This is the strength of this company. In order to enhance the accumulation of knowledge, they have adopted the implementation of an ERP (Enterprise Resource Planning) system. The IT software technology of ERP aims to maximise the use of all the resources in an organisation and facilitate the learning process. These resources include: employees and their skills; the business processes, procedures and organisational structure; and IT systems which support the various business areas. ERP promises one database and one user interface across an entire multi-site enterprise. Taking information from every business area, ERP helps managers and employees plan, monitor and control the entire business. Improved control of resources means greater efficiency and effectiveness. ERP is a large investment for DSF, and at the time of the interviews, they were working on the selection, implementation and optimisation of software packages (e.g. BaaN, JBA, JDEdwards, Oracle, PeopleSoft, SAP, SSA), as these must be closely managed to deliver maximum benefits. The investment in ERP also places demands on skills training for staff; it is a challenging learning process for DSF in pursuit of technology innovation and management advancement. Figure 4 demonstrates in a more precise level how this foreign joint-venture transform their advanced managements into practice and the iterative process involving local managers carrying out ideas from training to implementation. The most challenging process is on applying the marketing concepts into operational systems and testing on the response from customer and market. Most likely it requires changes and modification which integrate different ideas into a hybrid model to fit in the organisation. This process is an iterative and adoptive dynamic.

Figure 4 Adoptive and Iterative Learning Processes in DFS



The leadership and learning culture in DSF encourages and promotes employee learning. Compared the other two case studies focusing on low-value added product strategy, the foreign joint venture has a much higher priority in strategic management and high value-added products. It is interesting that this foreign joint-venture has such a high profile while the other types of case study engage in different strategies with different management models. It reflects how this foreign joint venture operates on the basis of very different principles (derived from its US co-ownership and different education background) than the other types of indigenous-owned case studies.

In 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 capitalism values, a series of workshops have been implemented aiming 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 and no pay' 'customer is the God'. However, it seems resulted in even higher job insecurity and hostile attitude when work conditions are restricted and welfares are eliminated. More critically, training on knowledge and skills of key staff is not prioritized.

Outcomes of entrepreneurial process

The entrepreneurial firm and foreign joint venture (FJV) both represent successful growth with healthy profit generation. However, FJV that engaged in high value-added branding strategy demonstrates higher profit margin and return which enable it to grow in market penetration and brand recognition. It is successful in terms of profit and brand development. The entrepreneurial firm in contrast, with strategic choice of production-based low value-added product, expand its production scale and profitability through broadening product portfolio and increasing production capacity with advanced technology application. It has grown five times in size and scale via an acquisition of a state-owned manufactory firm in 2008-2009. It will be compelling to keep track of its growth in the next five years.

The trans-ownership collective company expanded quickly in the first three years 2003-2006, however, it eventually failed in 2007 due to irredeemable ownership split. Management conflicts and contradictory socialist ideal culture and capitalism values between two partners have led to the closure of this trans-ownership venture. Regardless of the resources that provided by collective ownership, management process and culture consistency seem to have greater impact on the success and failure than the resource contingency.

Conclusions:

The comparison of three case study companies of similar size operating in the same industry demonstrates distinctive contrasting strategies that are directly related to their contrasting ownership forms. Although two companies have been successful in terms of their profitability and growth, the joint venture has made strategic choice in the high value-added market position to obtain sustainable long-term competitive advantage. The entrepreneurial firm appears to dependent upon the energies and capabilities of the owner. It has breakthrough the growth bottleneck by adopting acquisition strategy to access resources. Effective employee learning has been undertaken in the joint venture, which provides the basis for brand management focused strategy and long-term business growth. Evidence from the two case studies suggests the joint venture represent a more effective mode for organisational learning for Chinese firms. But it also demonstrates that in this company these have been virtually no “localization” of western practices.

The trans-ownership venture is failed in five years time. Although it has adopted the similar growth strategy as the entrepreneurial firm, which both focus on increasing production capacity and broadening product portfolio as the mode of growth, its irredeemable management conflicts and contradiction of values and culture have caused the eventual failure of this trans-ownership venture regardless of the availability of the needful resources (e.g. manufactory facilities, finance, labour, business networks). It seems to imply that the management capacity and consistent culture values have greater impact than the availability of resources. The comparisons between the three types of business venture may be summarized as in the following table 3.

Table 3. Summary of Organizational Characteristics Profile in Different Types of Business Venture

– Contrasting Features of Three Case Studies

Contingency factors	**Indigenous Entrepreneurial Firm (1996- 2009)**	**Foreign-Owned Joint Venture (1997 – 2009)**	**Trans-ownership Collective Venture (2003-2008)**
Entrepreneur	Experienced and highly capable and energetic person with charisma; No formal education qualification; Spontaneous market-driven and customer and market focused; Age 45.	Highly-skilled couple entrepreneurs with charisma; High educational qualifications; Customer-focused; Learning and knowledge advancement emphasized; Aged 45-47.	Mixed management team with private owner and collective ownership; Market-driven and profit-oriented private entrepreneur; Social ideals in collective ownership; Ages between 45-55.
Opportunity	Cashmere product demand in domestic mass market; overseas increasing orders on cashmere product;	Increasing demand on high value added brand clothing in women fashion design niche market;	Garments demand in both overseas and domestic mass markets
Resources	Unique cashmere raw material supply; Experience and manufactory skills; Expertise in cashmere production technology; Experienced production worker;	Advanced management skills; Foreign capital and American partnership; Special knowledge of brand marketing; Intellectual property on brand and patterned design; International awarded fashion designer;	Established market networks and overseas client base; Experience and skills in women and men's garments; Access to physical and financial resources of collective ownership;
Organisation	- *Structure*: Informal and 'ad hoc', low skilled and multi-roles, with arbitrary-allocated rewards; low autonomy - *Strategy*: organic growth combined with acquisition growth;	- *Structure*: Formalized procedures, highly skilled and specialized roles, with explicit written criteria for rewards; high employee empowerment - *Strategy*: branding strategy; product portfolio	- *Structure*: centralized bureaucracy procedures, high finance and cost control; low rewards; low autonomy. - *Strategy*: multiple dimensions of product portfolio from broad

	diversified product portfolio; increased production capacity; - *Management & leadership:* Directive and top-down, owner-dependence style; - *Culture:* family value with an emphasis of harmony and compliance.	development; marketing-focused; outsourcing of manufacturing; growth through market penetration and brand value enhancement; - *Management & leadership:* Supportive with an emphasis on delegation, teamwork and shared decision-making; - *Culture:* Western style management culture with an emphasis on self-actualization and achievement, innovation and personal development.	categories of cashmere products to wide range of silk products; heavy investment in developing production capacity; acquisition of an established state-owned manufactory company. - *Management & leadership:* Directive and top-down - *Culture:* Nepotism, family culture with an emphasis of harmony and compliance.
Learning	Informal and random; emphasis of experience-based learning; rules of thumb;	Formalized and systematic learning; established learning programme; adoption of EPR;	Priority of learning on market-incentives and market values; no knowledge advance and skills training;
Outcomes	Successful growth through expansion in increasing production capacity and broadening product portfolio	Successful growth through creating high value-added brand product, market penetration and brand value enhancement	Failure/closure in 2008

Both the foreign-owned joint venture and the entrepreneurial firm exhibit a strong market-focused management. However, the joint venture model appears to have greater profitability and adopt advanced management concept. It benefits from access to knowledge, capital and technology to facilitate its growth 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. What is perhaps surprising is that there is little evidence of the adoption of 'localized' practices in this joint venture business. These appear to be 'swept away' by the adoption of western management methodologies. These qualities do exist in the entrepreneurial firm but they are solely dependent upon the skills and personality of the owner manager, making them precarious. However, what is impressive is that the entrepreneur has used the strategy of broadening product portfolio and increasing production capacity to maintain the market share and sales volume in order to generate more profit. The entrepreneur has moved from organic growth in 1996-2008 to a rapid expansion through acquiring other established firm in 2009. It is a strategic move to offset the vulnerability of low value-added products, aiming to enhance the profitability and the chance of survival.

Further research might explore learning model and knowledge transfer in foreign joint ventures in a wider industry context to examine other initiatives that may proactively manage and enhance the organisational learning. Quantitative investigation may be necessary to further assess the effect of “standardizing” global similarities at large group of management practices. Market socialism is continuously evolving; substantial contextual factors could possibly push strategic change of indigenous firms in China. It would be useful to conduct longitudinal research on changing management practices of different ownership forms and track down their interaction with the external environment in terms of organisational learning, growth strategies and performance.

The research has focused on three types of emerging business ventures under the development of market socialism in China. They are the offspring of market reforms that have evolved from the legacy of state socialism and the command economy. Drawing upon contingency model of entrepreneurship, this empirical research has shown how different ownership forms of business venture shape different management practices. It highlights the interrelationship between ownership and internal organisational processes. It suggests possible means of differentiating among alternative forms of organisation, structures and systems of management that can possibly influence on organisational performance.

This study demonstrates, under market socialism, institutional and regulatory environments tailor different policies for different types of business venture. It affects the availability of different resources and restricts fair access to certain production factors, such as land, bank finance and facilities. Therefore, ownership is a more influential contingency factor that shapes entrepreneurship process and moderates its outcomes in the context of market socialism. Three case studies also suggest that leadership and the method of learning, knowledge accumulation can significantly affect the learning process leading to different success outcomes, either growth through low value added product or through high value added branding. It provides implications on how those companies aiming for high value-adding product should do to manage this strategy. Indeed, it won't guarantee that all firms with the same strategy would achieve the similar outcomes. Why is that? As two contrasting cases, DALI with successful growth and SLAC with failure, demonstrate management and ownership factors, rather than strategy and resource, have greater impact on the outcomes.

To sum up, evidence from the case studies supports the four hypotheses:

(1) The type of ownership is a key contingent factor that moderates particular entrepreneurial outcomes.

(2) Leadership and knowledge accumulation capability are critical factors in learning process, significantly affecting the strategic choices in either high value or low value added product strategy.

(3) The broadening of product portfolios and increased production capacity will improve survival chances and increase the likelihood of firm growth.

(4) Management capability and consistency have greater impact on the success or failure of the venture than any other contingency factors.

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