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The Contrasting Strategies of Owner-managed and Foreign-engaged Joint Ventures under Market Socialism in China

Ping Zheng

Abstract

Drawing upon a contingency approach, this research based on case studies offers an understanding of the conditions for contrasting growth strategies in emerging business ventures in China. It offers an insight into the interactive effect of organisational processes that are likely to shape their strategic outcomes. Ownership as a key contingency factor influences the objectives of organisations and the formation of their growth models. The empirical evidence collected from key stakeholders in a selected number of company case studies suggests that organisations with "open" structures and processes that encourage the adoption of ideas, policies and methods from both internal and external forces are more likely to adopt more high value-added strategies than "closed" entrepreneurial firms typical of organisations in the conditions of market socialism in China. It demonstrates the critical role of foreign investment in shaping local management practices in the transitional economy. It also implies that irrespective of political ideology, the creation of a market economy imposes 'standardizing' global similarities in business structures and processes that cut across national cultures. This is discussed on the basis of empirical data collected from interviews with key stakeholders in a number of company case studies.

Keywords: Entrepreneurial ventures, Growth strategies, Organisational processes, Market socialism, China

Author: Dr. Ping Zheng, The Business School, Canterbury Christ Church University
ping.zheng@canterbury.ac.uk

Introduction

One of the striking features of China's 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 (OECD, 2005). The rise of private sector in China is leading to various ownership forms; privately-owned firms and foreign joint ventures in particular are two major emerging forms of business venture under market socialism. Access to valuable resources, such as finance, political power, licenses, information etc. is determined by the nature of an enterprise, namely, the ownership (Yang, 2002; Yang, 2004; Kshetri, 2007; Zheng, 2007). Since the mid-90s China has been the second largest recipient of foreign direct investment worldwide after USA (Branstetter and Feenstra, 2002; Luo and O'Connor, 1998). In the 2000s, China's employment pattern and economy has been characterized by the downsizing of the state sector and the fast-growing share of foreign direct investment companies and owner-managed private firms (OECD 2010d). For example, according to OECD (2010d: 106), the annual average employment in foreign joint ventures has increased from 15% to 23% and 38% to 50% in owner-managed private firms from 2003 to 2007, whereas employment has significantly declined from 37% to 22% in the state-owned sector. It is believed that the expansion of foreign joint-ventures in the market have brought new western management concepts into indigenous firms, and improved their competitive advantage to local firms (Warner, 2004; Wong and Salter, 2002; Jiang, 2006). However, Fu et al (2011) argue that existing studies fail to provide convincing evidence showing that the significant positive effect of FDI on the local firms, and propose that emerging markets like China can only benefit the international technology transfer when parallel indigenous innovation is well developed and structured; therefore, Chinese firms should 'catch up' to develop own technological capabilities and integrate into global value chain. Likewise, Chen et al (2008) also suggest that China's FDI policies, using various financial and fiscal incentive schemes with the expectation of 'trade market for technology', should aim for a new strategic direction – a greater effort on developing indigenous innovation. As the economic reform is deepened in China, most foreign-invested firms still dominate in high value-added chain whilst in contrast the majority of small to medium sized local firms are clustered in low value chain industries (Sui and Bao, 2008; Redding and Witt, 2009).

To extent which do contrasting ownership forms shape different organisational practices, particularly in relation to the formulation of business strategies in responding to the external environment? This is the issue of inspiration in this paper. More specifically, it compares two different types of business venture in small size – an indigenous entrepreneurial firm and a foreign-owned joint venture as the emerging business ventures under market socialism in China. It attempts to provide an understanding of contrasting differences in the two major forms of business venture in the process of market transformation.

Market Socialism in China

Socialism and capitalism as two social regimes co-exist and challenge each other under different political and economic systems (see Pierson, 1995; Davis and Scase, 1985). 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 (Wu, 2003). The Chinese government believes there is no fundamental contradiction between socialism and a market economy. A market economy is indispensable to the allocation of resources in socialized production (Chen et al, 2008). In recent years, there is growing recognition among CPC leaders that a richer economy increases respect for the party (Kshetri, 2007; Kahn, 2006). Combining socialism with the market economy is an innovation of Marxist theory in socialist economy. This significant innovation is a distinctive feature of the 'China Model', which generates a hybrid market structure encompassing both public and private ownership (Naughton, 1994; Nee, 1992; Opper, 2001; Wu, 2003). The coexistence of the planned economy and the market economy means that the government still greatly interferes in market exchanges and transactions, and political factors influence the direction of economy.

The Emergence of Entrepreneurs in the Private Sector

Chinese entrepreneurs have emerged along with these changing economic conditions and with the development of private enterprise since the 1990s. These new entrepreneurs often moved from secure jobs in large factories with hopes of making personal fortunes (Djankov et al, 2006). They have been keen to cash in on market opportunities and have reacted skillfully to take advantage of ambiguous government policies, taxes, and regulations (Yang, 2004; Yang and Li, 2008). These entrepreneurs are often poorly educated and manage their businesses very informally, on a rule-of-thumb basis (Schlevogt, 2001). In this way, they operate similar to their western, small business counterparts (also see Holt, 1997). These indigenous entrepreneurial firms have shown impressive flexibility and dynamism in expanding their businesses in the absence of secure legal frameworks, and with limited access to bank loans (Gregory and Tenev, 2001; Dorn, 2001; Schlevogt, 2001). They are characterized by a strong entrepreneurial orientation, the extensive use of business networks (Krug, 2004), the exploration of informal funding sources and organic management structure (Schlevogt, 2001; Goffee and Scase, 1995).

Despite that recent policy changes have formalized the legitimacy of private ownership and publicly ordered that it be treated on the same basis as state-owned enterprises, state banks are still reluctant to give them loans (*The Economist*, 2002; Yang, 2002; Guo and Miller, 2010; He, 2009). This inhibits the opportunity for these entrepreneurs to invest in new technologies, to innovate and to fully exploit emerging market opportunities. Given this lack of financial resources and institutional support for R&D, most SMEs are forced to remain as small and low technology businesses in labour intensive industries (Sui and Bao, 2008; Zhang, 2002; Redding and Witt, 2009). They are forced to pursue low-cost production strategies, exploiting cheap labour and raw material (Li and Qian, 2009). The privately-owned enterprise detailed in the following case study reveals many of such challenges and tensions in the organizational development process.

Foreign-Engaged Joint Ventures

Foreign-owned joint ventures are the outcome of FDI policies in China. After WTO accession, as government's control in some of industrial sectors are relaxed, the formation of wholly-owned foreign joint venture enterprises seems to be a favourite mode by foreign companies (Yan and Warner, 2001; Chung and Bruton, 2008). However, as Child (1998a) has argued, wholly-owned foreign enterprises have relatively lower profitability when compared to sino-foreign joint ventures. This is because they lack the knowledge of local governmental issues, cultures and markets that is critical for business success. Many foreign firms' localization programs have been accelerated due to the deepened economic reforms. Some studies reveal that the management practices of these foreign-engaged joint ventures have adopted a hybrid model in combining characteristics of western management and Chinese cultural and human resource features (Melvin, 1997; Gamble, 2000).

The rapid expansion of foreign joint-ventures in the market have brought new western management concepts into indigenous firms, and improved their competitive advantage (Warner, 2004; Child and Tse, 2001; Jiang, 2006). In the 1990s and 2000s, China's employment pattern and economy has been characterized by the downsizing of the state sector and the fast-growing share of foreign direct investment companies and joint-ventures in the country. For example, the annual average number of employees in foreign-owned joint ventures has increased 145 percent from 7.75 million in 1998 to 18.99 million persons in 2005 whereas the number of employees in the state-owned sector has declined nearly 100% from 37.47 million in 1998 to 18.74 million in 2005 (CSY, 2006:529). As a result, the employment policies and practices of these firms have a strong bearing on reshaping the pool of human resources and the experience of work for a significant proportion of workers in China (Cooke, 2004). Foreign partnerships enable access to advance knowledge and external resources that may be transformed into competitive advantage for small businesses in China (Basu and Yao, 2009). A case study of a fast growing small-scale joint venture in this paper aims to explore the impact of foreign-engaged ownership form in shaping firm growth strategy and management process.

Research Through Case Study Approach

Through case investigation, I aim to demonstrate some connections between theory and practice. The development of management theory is based on summarizing and analyzing management practices (McGregor, 1987). This present research is entirely focused on qualitative analysis. Our research needed to explore how organizational processes work in relation to the growth strategies and how owners and managers behave in each type of business venture. It needed to analyze the 'interaction effect' among seven elements (strategy, structure, systems, staff, style, shared value and skills) of selected case study organizations. It is only possible with a qualitative case study approach. Quantitative research is unable to explore these organizational processes in depth.

The Selection of Case Companies

This research explores the growth strategies of emerging business venture in the Chinese private sector by reference to these two types of enterprise: owner-managed entrepreneurial firms and foreign-owned joint ventures. The two cases are chosen from the textile industry because it is highly competitive sector at the frontier of economic reforms in China (CTIA, 2003). The emergence of a private sector in this industry is most significant and fast growing; as a consequence, management practices are more market-focused (Wang, 2001). In this sector, the number of privately-owned entrepreneurial firms now makes up to 45.8%, and foreign joint ventures 43.5%, remaining only 10.7% for state-owned and collectively-owned enterprises (CTIA, 2004). Thus, the selected two major forms of ownership are representative. The Development Report of Clothing Industry (2005) points out, indigenous firms are crowded in the mass consumer goods market, like men's shirt and snowsuit, but the luxury branding goods in women clothes and T-shirts are dominated by foreign joint ventures. This research seeks insights from comparing two case studies – an indigenous owner-managed entrepreneurial firm and a foreign-owned joint venture, in order to reveal any contrasting differences in their strategies and organizational models. 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 (see *Table 1*). The "contingency" approach was adopted as the ground theory for the case study.

Table 1. Key Attributes of Two Case Study Companies

	Entrepreneurial Firm	**Foreign-Owned Joint Venture**
Ownership	Indigenous owner-entrepreneur	Foreign-engaged joint venture
Size	200 employees	200 employees
Age	10 years (1996 - 2006)	9 years (1997 – 2006)
Sector	Textile	Textile
Core Business	Cashmere fashion product	Luxury women fashion clothing
Strategic focus	Manufacturing and export	Brand management and marketing
Revenue (2005)	USD 3.86 million	USD 8.94 million
Annual Growth Rate (2001-2005)	41.8%	77.5%

Contingency Theory

The contingency approach focuses attention on understanding the interdependency between the internal characteristics of an organization and its external environment (Lawrence and Lorsch, 1969; Snow et al, 1992; Blosch and Preece, 2001; Wiklund et al, 2009; Daniels and Radebaugh, 2001; Watson, 2002;). It highlights the relationships between strategy, structure, methods of operations, and the nature of environmental influences, and provides a further possible means of differentiation between alternative forms of organization and management (Waterman et al, 1980; Peters and Waterman, 1982; Woodward, 1980). The proponents of this perspective differ in the ways in which they have conceptually measured internal organizational factors and the activities of the organization (Gartner and Shane, 1995). The cultural and institutional contexts shape the perception and interpretation of organizational change and influences choice governing its management (Triandis, 1994; Holt, 1997; Kshetri, 2007).

It is argued, for 50 years, the field of entrepreneurial and business growth has been heavily influenced by economics and more emphasis has been placed on an "increase in amount" instead of an explanation of "internal process of development", which accounts for the dominant use of outcome-based quantitative indicators (Leitch et al, 2010; McKelvie and Wiklun, 2010). It requires further exploration on "development of what" as well as “by which means”. Furthermore, Fu et al (2011)’ study in comparison of the role of foreign technology and indigenous innovation in the emerging economies, also suggests that more empirical evidence is needed to explain how indigenous firms could catch up and develop acquisitions of foreign knowledge to enhance their own competencies. By examining the case study organizations’ internal processes in a transitional economy, this research aims to add a useful contribution to understanding the diversity of organizational forms that are emerging in 21st century China.

Data Collection and The Use of McKinsey 7S-Framework

In the two case studies, total twelve open-ended interviews were conducted with owners and key managers (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 rich data collection (Noaks and Wincup, 2004). However, the outcome can be a catalogue of views, observations and accounts that are random, unstructured and without value for comparative or analytical purposes. Therefore, a conceptual framework is needed according to which the data can be collected in a systematic manner. For this reason, the McKinsey 7-S framework[i] (see figure 1.1) was adopted as an “organizing tool” for data collection and analysis. As Pascale and Athos (1982) argue that the 7-S framework cuts cross the complexity of the organisation and grasps the key managerial issues in a holistic view. It is particularly useful in the exploratory type of research (Peters and Waterman, 1980; Yin, 2003).

The 7-S framework is not merely an analytical tool; it also serves as a conceptual underpinning to indicate what range of information needs to be collected. Each S-factor can be operationally stipulated and used for measuring key organisational variables. However, these factors interact and explain each other; they cannot exist alone. For example, structure shapes strategy and vice versa; the characterization of structure can be revealed by the ways staff work; the style of managers’ behaviour reflects the culture and beliefs of the organisation. The interconnectedness of these seven variables is the key feature of this framework and is the relevance for the principle of contingency theory (Snow et al, 1992; Blosch and Preece, 2000). By examining variables within the framework, it can establish 'a profile of organisational characteristics' and allow us to compare and contrast organisational features by reference to the two types of ownership under exploration: the entrepreneurial firm and the foreign-owned joint venture.

Table 2. List of Interviewees in Two Case Study Companies

Case 1. Interviewees in Foreign-Owned Joint Venture	Case 2. Interviewees in Entrepreneurial Firm
1. President & CEO	1. Owner Entrepreneur
2. General Manager	2. Office Director
3. Chief Designer	3. Vice-General Manager
4. Marketing Manager	4. Marketing Manager
5. IT Manager	5. Finance Director
6. Human Resource Manager	6. Personnel Manager

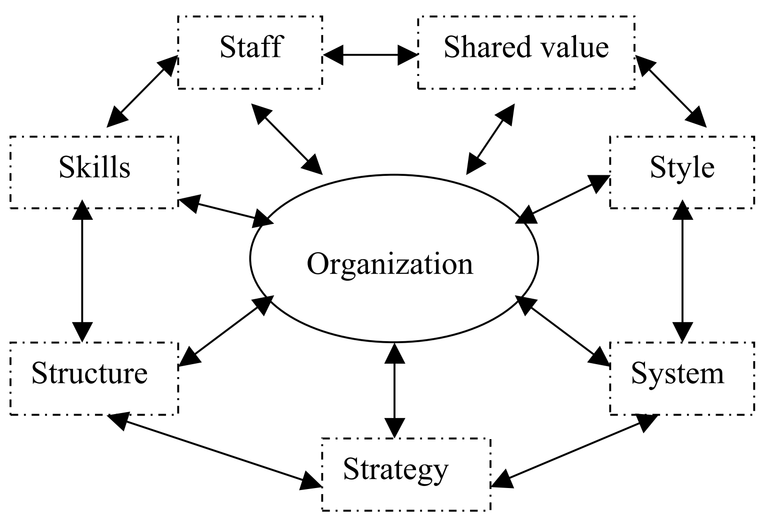


Figure 1.1 McKinsey 7-S Framework

(Source: Pascale & Athos, 1986, pp80-81)

The collection of data followed the 'triangulation principle' whereby multiple sources of data were used and explicit links maintained among these different sources to develop a chain of reinforcing consistent evidence (Yin, 2003; Eisenhardt and Graebaner, 2007). Based on McKinsey 7-S framework, data was collected from: 1) semi-structured interviews, 2) documents from company archives; 3) quantitative financial data; 4) non-participant observation. The semi-structured, open-ended interviews were audio recorded and later used to help transcribe the data.

Limitations:

The use of case studies is still controversial in management research. The measurement problem, 'a small number of cases and big conclusions', often raises questions of generalization of findings (Lieberson, 2000). This is the case with the present research and is, indeed, a factor that has to be taken into account when interpreting the findings. Since case studies allow for the analysis of complex issues (Yin, 2003), I, therefore, attempt to explore and clarify the contrasting difference in emerging business ventures where accurate empirical evidence is lacking. I do not suggest that the findings are generalizable across all contexts, however, the qualitatively based case study enables a thorough probe into the extent to which ownership forms shape different organizational processes, particularly in relation to the formulation of business strategies in responding to the external environment.

Analysis of Findings:

Strategy: According to Peters and Waterman (1980:273), "*by strategy, we mean those actions that a company plans in response to or anticipation of changes in its external environment – its customers, its competitors.*" In this research, the dimension for strategy, as the basis for data collection, was defined to refer to each company's orientation to growth.

Whilst the two case companies both operate in the same industry and are of similar size in numbers of employees and turnover, their growth strategies vary significantly. The motivations that drive the two 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 growth and product development. It has given priority to developing brand equity as the core of the company's marketing strategy. Its access to foreign capital has proven useful for building its brand reputation, which requires constant and extensive investment over a long time period. 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. Our strategy is to focus on branding, and pattern of our operation in priority order is 'marketing – design – manufacturing – outsourcing'. We have achieved the creation of a well-known fashion brand in the first ten years, the next goal is to develop a chain of by-products such as adorning jewllery, bags, hats and shoes in the same brand line or different names."

In contrast, the indigenous entrepreneurial firm has an aggressive approach to its expansion in scale and productivity. However, there is no explicit strategic long-term planning. He believes in an emergent approach to market change and emphasizes short-term operational plan. His firm is production-oriented, aiming to provide 'reasonable' quality for the high-volume retail market. Foreign agents and distributors are utilized to expand internationally. Its expansion focuses on developing manufacturing capacity with advanced production technology. It positions itself at the low end of the industry chain, profiting through quantitative supply of producing foreign brands. Despite that he has created an own brand for cashmere sweaters in domestic markets, its lack of an effective marketing strategy results in very limited market recognition. A majority of its revenue comes from overseas outsourcing contracts rather than the sales of own branded goods. In comparison with the foreign joint-venture, this entrepreneur is limited in his knowledge of marketing, branding and business strategies.

As he says: "*I don't have any strategy or ambitious goals in my business development. I just do what I think is right, following my instinct and rules of thumb, doing work with a down-to-earth style. Friends and Guanzi networks are important in my success as they have made a smooth going of my business. Through my personal connections, I obtained unique raw cashmere supply with competitive price."*

"I have been trying to improve myself by expanding the level of production and quality control. I have focused on each customer order, each batch of production, and

every season of sales. My 'Liaonan Wang' brand is weak and only known in this city. I know it still requires lots of work in marketing, but I don't have the right people to do this."

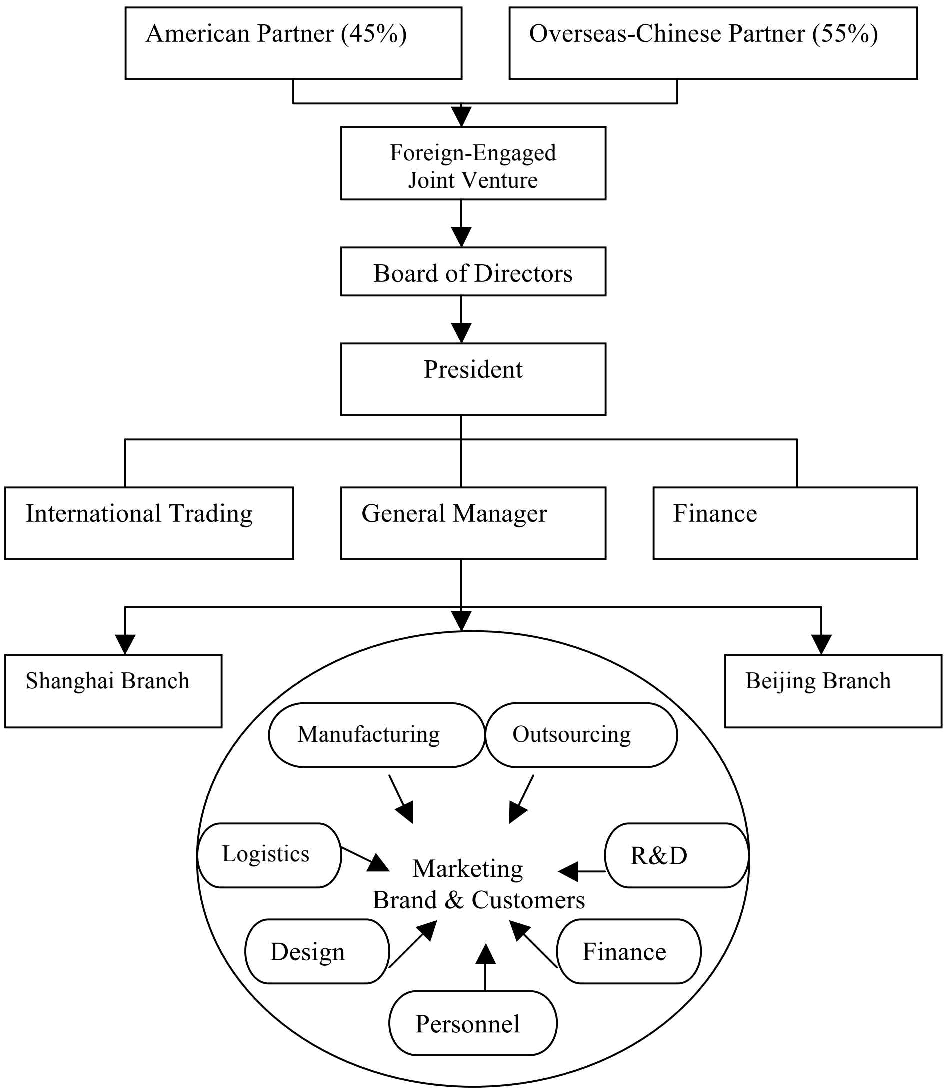
Structure: Peter and Waterman (1980) define, *"structure is how the organization divides up tasks, is one of emphasis and coordination – how to make the whole thing work."* In this research, the dimension for structure is defined in terms of the existence of organizational charts and the specification of roles, responsibilities and decision-making processes.

The structure of an organisation varies according to its size, the nature of the product and the philosophy of management. It provides the operational framework of an organization, its pattern of management and it makes possible application of management processes that creates a mechanism of orders and commands through which the activities can be planned, organised, directed and controlled (Birkinshaw, 2001). The two case studies demonstrate that the patterns of organisational structure are also determined by type of ownership.

The foreign joint-venture is characterized by a market-focused structure to meet its brand strategy, featured by operational flexibility in marketing activities (see figure 1.2). Such a relatively "open" structure facilitates personal development embedded with a high level of concern to promote 'intrapreneurship' (see Kuratko et al, 2005). 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. Formal rules and policies are enforced and descended from top to the lower levels in other departments, such as finance, personnel, technology and manufactory. Authority is stressed by the General Manager in order to ensure the implementation of commands and 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 1.2 Organizational Chart of the Foreign-Owned Joint Venture



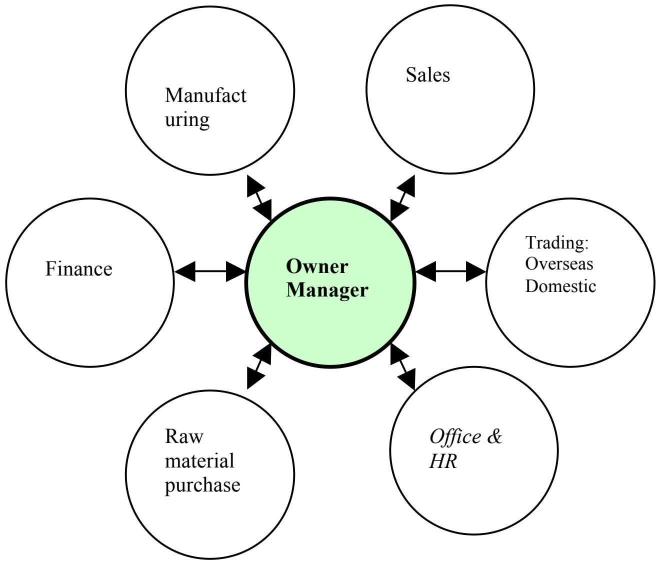
The organizational structure of the indigenous firm is almost non-existent. It has a flexible and fluid structure designed as owner-centered management (see figure 1.3). There are no documents relating to HR policies, management procedures, or company regulations. There are little job descriptions and no clear definition of duties and responsibilities. Employees take multiple roles whenever the company needs them to perform them. Job specialization is significantly low compared to the foreign-owned joint venture. Although the entrepreneurial firm has created woman cashmere products, there is no professional designer working on the design of women's wear but are 'copycats' of other top brands' design. In contrast, the foreign joint venture emphasizes a highly skilled design team as the key component in the organizational structure.

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 (see Goffee and Scase, 1995 for 'owner dependency pattern').

As he says: *"I 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."*

"The problem for my company is not a shortage of capital but a shortage of capable talent. When I look back, I realize that I predicted some trends in business development, but unfortunately my good ideas couldn't be implemented by only my two hands. I am aware that my enterprise needs effective reward systems and formal mechanisms to manage highly-skilled people. However, the changes will take time as I have to learn how to do it."

Figure 1.3 Organizational Chart of Owner-Managed Indigenous Firm



Systems: As Peter and Waterman (1980:273) state, *"by systems, we mean all the procedures, formal and informal, that make the organization go, day by day and year by year."* In this research, systems were defined as refer to communications channels and implementation processes.

To be compatible with their different structures, systems can vary in each form of business venture. The foreign-owned joint venture has formal rules for the control and implementation of processes and procedures, but it also emphasizes delegation and autonomy to key staff to encourage creativity and innovation. There is a clearly-defined HR strategy and personal development plans. A knowledge-based learning system is promoted and constant learning is incumbent upon all employees. However, this creates tensions because of the company's demands for creativity and highly skilled talent. Although intense education and training is designed to enhance skills of employees, their capacity to digest such knowledge is often restricted. The constant need to retain its competitiveness in cutting-edge brand management is a major challenge for the joint venture.

As the President comments: "*We have had heavily invested in marketing and promotions of our brand as our major strategic focus. Our current growth and* *profitability have approved this vision. However, as firm grows, my current problem is human resource management as we need to find a good HR manager.*"

Marketing Manager 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 as an effective motivation system is needed to retain highly skilled workers. 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 balance what we can get and what we can do.*"

General Manager adds, "*We need a better multi-designed motivation mechanism to retain capable talents at different levels. Our concepts and ideas need to be executed by capable staff, but we don't have enough of them in the Chinese labor market. Thus, we attempt to use comprehensive training system to develop and promote internal staff.* "

In contrast, the indigenous entrepreneurial firm has very informal communication and management systems. Face to face contacts, informal random meetings, ad hoc decisions, and verbal reporting are the characteristics of this company. The owner, as the sole authority, exercises total control over every procedure. He stresses the importance of obedience, which is the basis for what he calls organizational 'harmony'. Submissive employees are created and encouraged in this enterprise but this also constraints the development of creative talents which, in turn, handicaps the effective learning process through delegation, and limits further growth of the company.

The owner emphasizes: "*I believe the correct procedures must lead to the right results. That is why I have to focus on process control. ... This organization is like the human body and functions like a transformer – it must have the flexibility to change to different shapes when market needs. However, this organism has only one brain which is me, and other employees are the different organs of this body. In this sense, every part must play its own function and role, and listen to the commands coming from the brain."*

The Office Director adds: "*I used to work in a large state-owned corporation before. By contrast, the flexibility is supreme in this private company. No written rules or policies, and only one person makes all decisions and there is only one procedure to follow – that stated by the owner.*"

Staff: Peter and Waterman (1980:274) define it in two ways: "*at the hard end of the spectrum, we talk of appraisal systems, pay scales, formal training programs, and the like. At the soft end, we talk about moral, attitude, motivation and behavior*." This dimension is assessed in this research by the qualifications of key personnel and staff development policies.

The education level of key personnel in the foreign joint venture is higher than in the entrepreneurial firm. The president has an MBA from the US and the general manager earned a PhD in management. Higher education qualifications and experiences are essential requirements for key staff in this company since their knowledge is regarded as essential for brand management. Training programmes are designed as a substantial part of staff development, which illustrates the recognition of its importance. The joint venture offers 'soft' mechanisms of reward that reflect progressive human relation strategies, such as personal laptops, company cars, compensation for travel, opportunities to study abroad and promotion. These distinctive elements provide opportunities for 'self-actualization' (Maslow, 1987) and 'growth needs' (Herzberg, 2003). These all fulfill an important function in motivating staff and developing personal potential. As the personnel manager comments:

"*I feel the company not only meets employees' living needs, but more importantly it gives opportunities for personal advancement. We interact within this organization as a whole, as the organization's development depends on us, and our personal growth depends on the organization.*"

This is in contrast with the job insecurity of employees in the entrepreneurial firm, where only minimal state pay levels are offered. In this company, the owner-manager uses financial incentives as the sole mechanism of control to gain employees' commitment and motivation. There is no clear or written policy for staff development. Dismissal policy is simply on the basis of whether or not the owner arbitrarily thinks the employee is doing a good job. Promotion criteria do not exist in either a verbal or written form. The office director says:

"*We don't know promotion criteria and I don't think there is any chance to get promoted. In this private company, the matter is of how much responsibility you can take* *and how much wage you can get, which all depends on the boss' preference and so does the year-end bonus.*"

The qualification of key personnel is significantly lower in the indigenous entrepreneurial firm as the owner has no formal education and only few employees have a college certificate. Although he emphasizes the need for skilled management team in his company, his total control does not encourage a favorable culture for retaining and nurturing the growth of talents.

Style: Peter and Waterman (1980:275) state, *"it is important to distinguish between the basic personality of a top-management team and the way that team comes across to the organization. Not words, but patterns of actions are decisive. One element of a manager' style is how he or she chooses to spend time; another aspect of style is symbolic behavior."* In this research, the dimension for style is measured by the leadership style in each of the two organizations.

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 (see Blanchard et al, 1993, 'situational leadership model'). Authority is delegated to the middle managers who are expected to take responsibilities and decisions, and to 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 very authoritative in insisting on her ways of doing things and teaching us new things. We respect her as she has profound knowledge and experience. She speaks fluent English and always engages in diplomatic affairs with foreign companies and different countries. She has a very internationalized style and open mind.*"

The Manager of IT comments: "*Our president, Charles 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 Chinese 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*."

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 and intervention in every procedure of work. The owner is a self-motivated leader, but his staff do not share the same level of motivation due to their lower rewards in this entrepreneurial firm. 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 says: "*We work together as a family. His personality is very prompt and decisive. He cares for us and participates with us in our work. He can democratically discuss with us and you can feel his affinity*."

The Finance Accountant comments, "*He is a great leader who does things with care. His style is decent with justice, generosity and patience. I still remember that he treated us to a nice dinner as a welcome when we came back from the New Year holiday. He gives us a warm feeling."*

The Vice General manager comments, "*Mr Zhu knows how to put people to good use. He is an expert in cashmere material and spinning production technology. He is good for getting things on hand quickly. He listens every report and supervises every step of work progress.*"

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 and directive leadership is the basis for his unassailable authority.

Shared values: Peter and Waterman (1980:275) define these as, *"the fundamental ideas around which a business is built. They are its main values. They are the broad notions of future direction that the top management team wants to infuse throughout the organization. They are the way in which the team wants to express itself, to leave its own mark."* In this research, shared values are assessed by reference to organizational culture and management philosophy.

The guiding concepts, values and beliefs underpinning each type of these two 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. The philosophy of performance management is to stress self-actualization and result-driven performance.

As the marketing manager comments: "*The company gives you high autonomy as it just tell you the objectives, the processes and decisions are left to us to determine*. *It is a great opportunity for us to apply own ideas and manage the outcomes. Sometimes I feel it might be too much autonomy as it places high pressure on individual managers to develop procedures, tasks and responsibilities for the team.*"

The organizational culture of this joint venture emphasizes 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. Senior managers play a valuable role in teaching and educating employees core values and philosophies. They encourage staff to pursue excellence. Creativity and innovation in marketing and technology are centralized in employees' education. This is the key value in the company's culture and this creates favorable environment to further promote individual creativity and capability. High degree of employ empowerment is regarded as an essential philosophy underpinning the company's ethics. 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 philosophy of the entrepreneurial firm addresses on the importance of conventional Chinese culture values, such as family values, harmony, and compliance. 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. 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 father figure of this family. This family culture also enforces the informality of the business and reinforces his employees' dependency on him (see Gofee and Scase, 1995).

As he emphasizes: "*This company is like my child as I created it from scratch. I do not like others telling me how to run my business. … I want to make this organization as a family so that everyone is part of it and bounded together by family value and working in harmony.* "

This business prides itself on having an informal learning culture. This is promoted through the owner. The owner sometimes designs low-cost and informal training programs. He occasionally arranges field-visits to advanced companies nationwide, and joins industry associations as extended network to access new ideas and knowledge. Although he constantly stresses the importance of learning from best practices, the company has no formal training programs due to the cost concern. The owner's philosophy and behaviour determines the organisational processes and cultural norms. As the owner says:

"*I do not want to spend too much money on formal training courses, but I take my managers to visit other big companies a few times in a year, so that they can observe and learn by themselves. They need to know the success benchmark and understand how far we have to go and what we should do to approach that level. This practical approach stimulates them to work harder and to become better.*"

The office director comments: "*The company's training is very informal and random, and it depends on the needs of the emergent work. New workers in production are trained by their supervisors on the factory floor. Ad hoc training may be only offered to managers when the owner thinks there is a need; such as when foreign trading requires an understanding of contract conditions and procedures.*"

Skills: Peter and Waterman (1980:276) define these as, *"the dominating attributes or capabilities of key personnel are what we mean by skills."* In this research, this dimension is defined in terms of the key resources available for each firm's competitive advantage.

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 difficult to imitate, and so can be the source of competitive advantage (Haberberg and Rieple, 2001).

In the joint venture, its core competences are gained by investing and developing people. The key staff in marketing, design, technology and R&D form the core component for its competitive advantage. Its open and learning culture facilitates the development of distinctive capabilities, as constant training and knowledge acquisition helps to reduce failure (see Holcomb et al, 2009). The use of foreign capital and its joint ownership provides the strength in terms of knowledge transfer and the advancement of management skills.

As the general manager comments, *"Brand building is customer-centered management. We need to follow up their changes in needs, so that our foreseen ability and creativity are important in brand management. Design with R&D is a total activity. The colour motif, material technology and craft of clothing are all dependent on market data and scientific research. We intend to create a high value-added brand through knowledge advancement and creativity. Building a high quality team through well-designed training programmes is one of our key focuses.*"

The indigenous firm has focused on developing its core competency in manufacturing capacity and production technology. The owner entrepreneur's prior experience, network connections and skills contributed to his success. The vision and ability of the owner entrepreneur is the determining factor in this entrepreneurial business, as everything depends on the proprietor. His flexible and informal structure with quick decision-making allows him to swiftly respond to market trends, which enables him to capture new opportunities and expand internationally.

However, as businesses grow, he realizes changes acquired: "*We are in a period of improvement. There are many things in the company that need to be improved, and we are working on that, such as quality, formalization, and advancement in management techniques. However, flexibility and adoptability is important advantage that I will persist."*

Entrepreneurs face challenges and problems as their dependency on their prior experience and centralized control can turn to be limitation to their further growth.

Technology and innovation in this firm are focused on improving production capacity and expanding manufacturing facilities, as these areas are the expertise of the owner manager. The organization as a whole must be skilled and not purely dependent upon a single individual. In the interview, the proprietor explains why he cannot delegate.

"No one in the business is capable of taking full responsibility. Their ways of thinking and ways of doing things are not best beneficial to this company. No one is competent enough to make important decisions."

Entrepreneurs need to adopt a managerial approach to meet growth needs (Kuratko, 1996). They have to recruit reliable managers, delegate control and establish an appropriate 'administrative structure' (Penrose, 1959), so that the implementation of complex tasks can be predicted and monitored. Compared to the joint venture, the indigenous entrepreneurial firm is more vulnerable in sustainable competitiveness, as many factors, such as reduction of international orders, price wars, fluctuations in currency exchange rates can rapidly erode its low-value added profit margin from manufacturing and trading.

Theoretical Implications:

The comparison of two case study enterprises of similar size operating in the same industry demonstrates distinctive contrasting strategies that are directly related to their different ownership forms (Kshetri, 2007; Yang, 2002). Although both companies have been successful in terms of their profitability and growth, the joint venture has positioned itself in the market to obtain sustainable long-term competitive advantage. The entrepreneurial firm appears more vulnerable because it is dependent upon the energies and capabilities of the owner (see Goffee and Scase, 1995) and positioning in the low end of value chain. Lack of knowledge management and the absence of administrative structure represent major barriers for the indigenous firm to engage in high value-added strategy. Effective employee learning has been effectively built in its management systems in the joint venture, which provides the basis for its brand-focused strategy. Empirical evidence from the two case studies suggests that the joint-venture represents a more effective mode for organisational learning for Chinese firms. The joint venture benefits from access to advanced knowledge, capital and technology which in turn builds up its competitiveness (see Smallbone et al, 1995). 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 (see Holcomb et al, 2009). As a consequence, innovation processes built into the culture and structure of the business in ways in which they are not in the entrepreneur's company. Child and Tse (2001) address that Chinese firms need the enhancement of domestic resources and support systems, especially in human competencies, technology and professional services. This research adds empirical evidence to this view, more importantly it extends this perspective by revealing what needs to be done for indigenous firms to 'catch up' (also see Fu et al, 2010 for this issue). It is not simply a change of product strategy but more systematic development of organisational processes that serves as a breeding ground for a strategic shift. Furthermore, I argue that quite contrary to the dominant advocacy of 'localization' strategy for foreign firms (see Child, 1998a; Gamble, 2000, for this issue), surprisingly 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. The comparisons between the two types of business venture are summarized as in Table 3.

Table 3. Summary of Organizational Profile
– Contrasting Characteristics of The Two Case Studies

7-S factors	**Entrepreneurial Firm** (Manufacturing-focused)	**Foreign-Owned Joint Venture** (Brand-focused)
Strategy	Low cost strategy based on spontaneous market-driven decision-making;	High value product strategy based on formalized short and long-term business plans;
Structure	Absence of formalized duties and tasks; flexibility undertaken according to needs; centralized total control with low delegation	High specification of job tasks and duties in written job descriptions; flat hierarchy with high delegation in functional departments
Systems	Informal and 'ad hoc' training	Formalized procedures and well-designed in-built learning processes

Staff	Low skilled and multi-roles, with arbitrary-allocated rewards.	Highly-skilled and specialized roles, with explicit written criteria for rewards.
Style of Leadership	Directive and top-down	Supportive with an emphasis on delegation, teamwork and shared decision-making
Shared values	Nepotism, family culture with an emphasis of harmony and compliance.	Western style management culture with an emphasis on self-actualization, innovation and personal development.
Skills	Personal capabilities of owner entrepreneur	Highly-skilled management team

Practical Implications

Due to the fact that government policies and political institutions still restrict the resources for small to medium size firms' growth, indigenous entrepreneurial firms are forced to cluster in low-value and low-cost-based production sectors. To a large extent these entrepreneurs are forced to be opportunistic and often unethical (Yang, 2004; Sui and Bao, 2008; Zhang, 2002; Redding and Witt, 2009). The dynamics of market socialism compels them to occupy 'niches' in the market not catered for by other types of enterprise. Despite the Chinese Communist Party attempts to legitimize their role, they are regarded by both the state and other market actors as marginal or peripheral to the future development of market socialism. The contrasting differences between two organizational forms suggest that there is imperative need for the Chinese government to improve its institutional infrastructure and enhance policy support for entrepreneurial activities, especially in efforts to understand how indigenous firms can build up competencies and adapt future behaviors through effective organisational learning.

Government reform policies have provided privileges and offered special tax treatments to foreign companies choosing to invest in China. These foreign joint ventures are the dominant force of the private, non-state economic sector because of their combination of local skills and knowledge with foreign-imported technologies and advanced management practices. It remains to be seen if this will continue to be the case in the future as the development of indigenous managerial, technological and scientific skills reduces the need for the Chinese economy to be dependent upon the import of these. At present, the state and foreign joint-ventures have a symbiotic relationship; they are dependent upon each other for the pursuit of their own separate objectives and agendas.

Conclusions:

Building on existing research, I advanced an understanding of organizational development in different forms of emerging business venture in China. It added empirical evidence to the contingency perspective in organizational change and strategy. The case studies have shown how organizations are subject to a range of ownership influences in which main stakeholders shape an organization's objectives and organizational processes. Also it implies that the adoption of a specific strategy not only associates with benefits and costs of its use but also with the conditions embedded in the changing dynamics of organizational process.

This study also demonstrates the key role foreign investment can play in the formulation of strategy and organizational development. It is not simply a matter of capital investment, since this is also associated with the imposition of western business cultures and processes in the Chinese market economy. Even the owner-manager operates in ways very similar to those of entrepreneurs in western economies, which this complements Holt's debate (1997) on the cultural convergence. Indeed, an implication of this research is that irrespective of political ideology, the creation of a market economy imposes "standardizing" global similarities in businesses structures and processes that cut across national cultures. Entrepreneurs across the globe appear operate in more-or-less the same way. Equally, foreign-owned joint ventures seem to impose "Harvard-inspired" practices irrespective of the socio-political and economic environments in which these operate, whether these are in China or elsewhere.

Implications for Future Research

Firms differ in business strategies they employed. These differences are important and give rise to many of the interesting questions in the field of organizational development and change, especially in the context of emerging economies. Despite the fact that market socialism shapes many characteristics of management practice, the interplay of market economy and emerging business ventures is creating tensions and incompatibilities within the institutional fabric of transitional economy in China. It is the on-going resolution of these that will shape the future development of Chinese society. Studies examining managerial behaviors have often emphasized the institutional, economic and political influence, and many questions concerning how different forms of business venture grow and interact to shape institutional change need to be further observed and explored over time. It is important to understand the organizational processes that are interactive with the changing environment and how firms learn and develop their dynamic capabilities over a prolonged period of time. This can meaningfully inform organisational development theories and management practices in emerging economies.

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[i] This framework was originally designed by Peters and Waterman (1982) for their study of 62 American companies with so-called "excellence traits". Richard Pascale and Anthony Athos' book (1986), "The art of Japanese Management" was an exemplary case study for further developing the 7-S-model in effectively assessing management practices. It successfully explored Japanese management practices in a case study of Matsushita by comparison with an American company.