

**The Role of Social Capital in the Development of  
Chinese Family Business  
—The case of Chengxin Group**

**HU Jianyong**

Thesis submitted as partial requirement for the conferral of

**Doctor of Management**

Supervisor:

Professor Nelson Antonio, Full Professor, ISCTE University Institute of Lisbon

Co-supervisor:

Professor LI Shiming, Professor, University of Electronic Science and Technology of China,  
School of Management and Economics

April 2013

**Social Capital and Management Innovation:  
The Cases Studies of two Chinese Private SMEs**

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- Spine -

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Declaration

I declare that this thesis does not incorporate without acknowledgement any material previously submitted for a degree or diploma in any university and that to the best of my knowledge it does not contain any material previously published or written by another person except where due reference is made in the text.

Signed  Date \_\_\_\_\_  
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## **Abstract**

With the further deepening of economic globalization, Chinese family business will face more intense competitive market environment. In order to survive and develop, they must continue to carry out activities with independent innovation and entrepreneurship. Therefore, a basic and important question is how the family business achieves the sustainable development, the ongoing success of innovation, entrepreneurial activities and ultimately realizing their own diversified development? This study is based on the relevant research, following the idea of "social capital - resources - enterprise development" and made the "social capital of family business and enterprise development" as the research's main line. By the in-depth analysis of the development process of Chengxin Group, this study put forward that social capital is an intangible resources and productive elements which cannot be ignored in the development process of family business. By embedding in the organization and individual entrepreneurs, social capital affects the governance and development direction of family business.

**Key words:** Family business; Social capital; Resource-based view; Chengxin Group, China

**JEL:** M10





## Resumo

Com o aprofundamento da globalização, as empresas familiares chinesas enfrentarão uma maior concorrência. Para que possam sobreviver e crescer, devem continuar a desenvolver atividades inovadoras e empreendedoras. Contudo, uma questão importante a colocar é como as empresas familiares conseguem um desenvolvimento sustentável no quadro da inovação, de atividades empreendedoras e diversificação das suas atividades? Esta tese tem por base a teoria “capital social- recursos-desenvolvimento da empresa” e investiga o papel do capital social no desenvolvimento das empresas familiares. Baseando-se no estudo da empresa familiar Chengxin Group, esta tese confirma que o capital social constitui um ativo muito importante no desenvolvimento das empresas familiares. Embrenhando-se na empresa e nos empresários, o capital social afeta o modo de governança das empresas familiares.

**Palavras Chave:** Empresa familiar; capital Social; Teoria dos Recursos; Chengxin Group; China

**JEL:** M10



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## **Chapter 1: Introduction**

### **1.1 Research background**

In many forms of enterprises, family business is one of the earliest forms of business units in human history. Whether in the condition of manorial economy, farming society or a modern market economy, it always has a very strong vitality, evolves with the developing of the economy and society, and plays an important role in the economic development of a country or region. Family business is indispensable in the economic development of many countries and regions. From the global point of view, this form of business unit occupy more than half of all enterprises in many countries, and most of them are small and medium-sized enterprises (SMEs). According to the Gersick's (1997), the most conservative estimates are that about 65%-80% of the enterprises around the world are owned or operated by family. The employment of labor and the gross domestic product (GDP) created by family businesses accounted for 50% in American and in Europe it account for about 47%. Many large international companies which are well-known in our daily lives today are family business. These include companies such as DuPont, Ford, Kodak, Amway, and Motorola. According to the statistics from the American quarterly magazine "Family Business" made in 2007, some large companies in the United States are mostly the derivatives of family business. The proportion of family business reached 54.5% compared with 76% in the United Kingdom, 75% in Australia, 71% in Spain, and even more than 90% in Italy and Sweden.

In many Asian economies, due to the influence of historical heritage, cultural background and other factors, the role of family business is even more important. It has become the main form of business enterprise and have even monopolizes the country's economic lifeline. In the 1000 Asia's largest companies, two-thirds are family business and the statistics in similar in other countries. For example, more than 95 percent of Japanese SMEs are family business, and in India, 75 percent of the largest 500 companies are family business. Information technology, telecommunications and other industries are all controlled by the family businesses. XinShi Group, the largest family business in India, had an annual income of \$25.16 billion in 2006, ranked 269 in the "The Global Top 500". In Thailand and Hong Kong, the five largest family businesses controlled about 26% of the total market value.

In South Korea, Malaysia and Singapore, the ten biggest family businesses manipulate  $\frac{1}{4}$  of the total market value.

Since the policy of reform and opening up, the Chinese family business has renewed its vitality. The marketization process of China is largely due to the promotion of the private economy which family business is the main body. The private economy has deep family brand, even some large-scale private enterprises that have been successfully listed and stridden to internationalize but still have deep family or pan-family colors. The large number and different shapes of Chinese family business are more than any other forms of enterprise in China. There are family workshops, individual businesses, single proprietorship and partnership enterprises, also included are enterprises and listed companies groups which maintained critical control by family members. The Chinese Private Enterprises in the year 2007 conducted seven research surveys about private enterprise in China from 1993 to 2006. The results showed that family business is the main mode used in the present Chinese private enterprises. The Seventh National Private Sample Survey in China in 2006 shows that 90% of business owners serve as president and general manager in China's private enterprises. Family members of business owners take up about 50% in senior management positions. Even where the company has been successfully listed, the owners serve as president or general manager and these formed as high as 80%. According to a report by Shanghai Securities Exchange Research Center in 2005, Chinese private listed company generally shows a phenomenon that ownership is highly centralized, and in 34.28% of the private listed companies the largest shareholder hold more than 30% of the shares. What is more, private listed companies extensively have the characteristics of family-controlled and paternalistic decision-making. Family business is not only universality in quantity and distribution, but also plays an important role in employment, national tax revenue and foreign trade. Therefore, family business has become an economic force that cannot be ignored in the process of Chinese economic development, and a research of family business has a special significance for China.

Chengxin Investment Holding Group is a large-scale private enterprise group in China's Sichuan province, and is also a typical Chinese family business. It has a registered capital of 350 million Yuan, with 4.65 billion Yuan of fixed assets. The company is headquartered in Chengdu, with branch offices in Beijing and Shanghai. Currently, the company's staffs are more than 800 employees. Chengxin Group is a diversified enterprise group with industrial clusters, which is engaged in real estate, construction, mining, and catering and leisure

industry. From its conception to development and expansion, the development process of Chengxin Group shows the history of a rise and fall in the process of Chinese family business development from 1949 to the present.

Beginning from the 1980s, especially the 1990s, "social capital" has become the forefront concept in the social sciences. In recent twenty years, the concept has been gradually accepted as an interdisciplinary area by the western mainstream scientific community, and it is recognized as one of the most promising topic of social sciences area in the 21st century. It is generally accepted that social capital refers to a mechanism of social relations, such as the network of relationships, norms and trust, and it can promote mutual cooperation, contribute to the people, who are in this kind of social relations, achieving their individual or collective goals. Once the theory put forward by sociologist, it has raised a lot of support by others disciplines, such as, economics, management and politics. It is not only a new academic concept; the more important is that it set up a new theoretical paradigm for research in the social science. The introduction of the concept of social capital is a revolution of the economics paradigm, by incorporating trust, norms, networks, and other historical or cultural factors into the framework of economic research, it further broaden the theoretical basis of the new institutionalism and the ideas of economic research. Showing many aspects of the meeting point between social capital and family business along with the in-depth study of the theory of social capital applied to enterprise research, social capital theory has become a new perspective in the study of governance structure in family business.

Resource-based view (RBV) has also received extensive attention and had acquired rapid attention in recent years. RBV provides a strong theoretical support for the study of competitive advantage. Competitive advantage is the core of strategic management research, and strategic management is undoubtedly one of the most powerful theoretical tools to analyze the mechanism of the impact that social capital has on competitive advantage. The resource-based theory that was developed in recent twenty years, with a more perfect theoretical system and logical analysis framework gradually formed in the process to explore the enterprise nature and competitive advantage, has occupied a dominant position in the field of strategic management, and has gained generally recognition in the academia. In recent years, theoretical studies about the resource-based view are endless, which have greatly enriched the research achievement in the field, and also widely used in many management areas.

This study is based on practice and theoretical background that has been described above.

It makes Chengxin Group as the study object, which is a typical family business in the Chinese context, and it carried out on the basis of the comprehensive utilization of resource-based view of strategic management theory and social capital theory.

## **1.2 Research problem**

With the further deepening of economic globalization, Chinese family business will face more intense competitive market environment. In order to survive and develop, they must continue to carry out activities with independent innovation and entrepreneurship. Therefore, a basic and important question is how the family business achieves the sustainable development, the ongoing success of innovation, entrepreneurial activities and ultimately realizing their own diversified development? This thesis is based on relevant research, following the idea of "social capital - resources - enterprise development" and made the "social capital of family business and enterprise development" as the research's main line. By in-depth analysis of the development process of Chengxin group, this study put forward that social capital is an intangible resource and which cannot be ignored in the development process of family business. By embedding in the organization and individual entrepreneurs, social capital affects the governance and development direction of family business.

## **1.3 Research value and contribution**

The research into family business is a topic with modern significance (Chu Xiaoping, 2000), and it is also a field needed to do more work on to move it forward a single step. The policy of reformation and opening up promoted the growth of family businesses in China, and now with the policy implemented deeply, the family firms must be more energetic in the future. From an academic point of view, it enriched and developed the enterprise theory that the research reveals on family business and the issue in family business development in economics, and it strengthen the micro basis of economics research. So, the research on Chinese family business in the transition period has vital significance no matter in the theory or practice.

### **① Theoretical significance**

Although family business has quite a long history, it is no more than decades ago since scholars spent lot of attention and research on it. Some British and American scholars began

to engage in the family business research in the 1950s, and there arose a research climax in the 1980s. Chinese scholars began to do systemic research on family business in the 1990s, with the research areas and achievements increasing quickly after the year 2000s. There are some well known Chinese scholars in this field, such as Professor Xinchun Li (Sun Yat-Sen University), Professor Xiaoping Chu (Shantou University) and Professor Ling Chen (Zhejiang University).

Currently, from the existing research achievements, there is no convincing theoretical basis and analysis paradigm about the family business research. Most of the research used existing theory of many fields, such as economics, sociology and management to analysis and explain family business. The research on family business is in the step of "pre-paradigm", just like the concept put forward by Thomas Kuhn, it is rich in the research content, but there is not a core problem, what is more, there is not a theoretical framework widely recognized (Xinchun Li & Shujun Zhang 2005). It also shows that what we do on family business research is not deep in theory, and further exploration and trials are still important in the future. Meanwhile, as a kind of structure about economic organizations, for their own survival and development, family firms adjust themselves constantly to the economic and social change, and it is necessary to study and summarize these adjustments because new situations and characteristics have emerged. Summing up the above, the research on family business, "now is not the beginning of the end, but the end of the beginning", just like what Churchill described the early part of the Second World War, and a lot of complex and in-depth researches are waiting for us.

Based on the resource-based view, this study emphasizes the growth of family firms from the view point of social capital. At present, the literature is more and more colorful, which are about family business research based on the social capital theory. But most of them are only at the step to introduce the theory and mainly to interpret the concept about family business and some phenomena. The concept of social capital facilitated the growth of the family business and family resources. Currently, the use of social capital theory has also increasingly enriched the literature on the study of family business, but most of the researches are still in their introduction stages. The theory explains concepts and phenomena of the family business and an in-depth analysis on the framework of the theory of social capital. Its emphasis is especially on the analysis of the social capital in family firms, such as, what is the family business social capital? What kind of network structure does it exist in? How it affects the growth of enterprises? The research on this kind of problems is important but there is the

need to undertake more research on it in order to open the "Pandora box". From this perspective, this thesis uses the theoretical framework of social capital to analyze the problems of how family business grows, with some theoretical significance.

### ② Practical significance

It is been more than three decades since the policy of reformation and opening up was carried out in China. Chinese private enterprise, as an organizational form, which are mainly composed of family businesses, has struggle to grow up in the state-owned economy, but has grew step by step from small to large and weak to strong. What is more, it grew up as an important supporting sector to the development of the national economy.

The existence and development of any kind of organization is influenced by the particular social environment and social culture it belongs to. The policy of reformation and opening up was executed step by step, and China was smoothly integrated into the world economy. This movement was influenced by the theory of western market economy and influenced the thoughts and behaviors of Chinese people. In our opinion, the traditional family culture and the family system combined with the modern market economy system led to the rapid growth of family enterprises in China.

The Chinese family business has been influenced by a dual culture, how are their survival and development? Most scholars think that family businesses have advantages in saving transaction cost and making up the lack of trust in market, but also have endogenous disadvantages that limit its trading scope. From the reality, since the policy of reformation and opening up was carried out, though the growth of family business is promising, there are really many problems associated with it, and a lot of family firms are dead because the problems appear with the firm's growth.

The related studies also show that, the surviving time of family business, which is the main body of private enterprise in China, is only 2.7 years on average. Even in Zhejiang province, where the private economy is more developed, the life cycle is only seven (7) years. According to the survey made by Zhejiang Industrial and Commercial Bureau in July 2001, the private enterprises only occupy 0.355% of all the enterprises which has existed more than eighteen (18) years in that province; from 1035 private enterprises registered in 1989, only 351 of them that still exist. So, do we say, it is an endogenous problem or a process problem?

## 1.4 Research structure



Based on the theory on Resource-Based View, the focus of this study is mainly to make an analysis of the growth process of a family firm—Sichuan Chengxin Group, to see how important the effect of social capital was to the family's firm development. There are six chapters in this thesis, introduction, relevant theoretical literature review, research design and methods, development of Chinese family business, analysis on sustainable development of Chengxin Group, conclusions and recommendations. The research frame of this study is given in Figure 1-1.

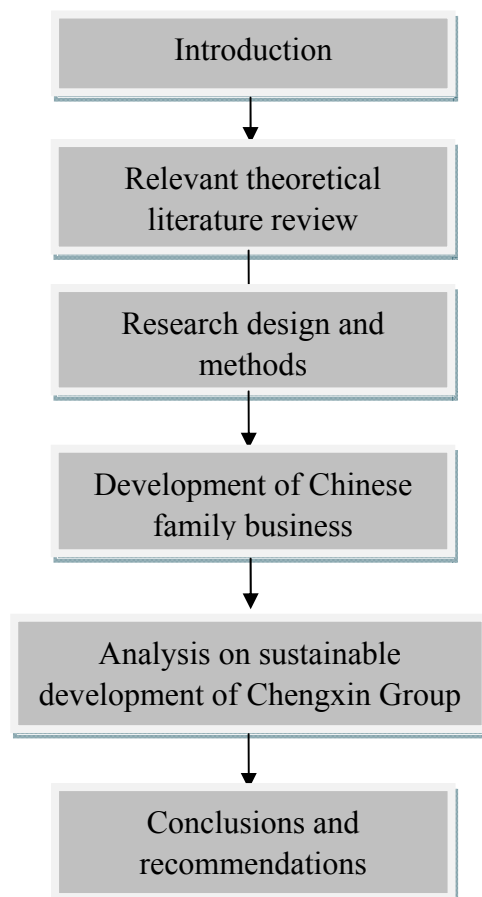


Figure 1- 1 The research frame of this study

Chapter one is an introduction. It is the foundation of the research. It introduces the research background, research problem, research value and contribution, and research structure.

In chapter two relevant theoretical literatures are reviewed. This chapter mainly reviews and summarizes the researches that are related to, including social capital, RBV (Resource-Based View), and familiness. It also shows the significance of the study's contents.

Chapter three is research design and methods. This chapter introduces the selection of research methods, data collection and quantitative analysis tools.

Chapter four is the development of Chinese family business. It mainly describes and analysis the development process of Chinese family business since the year 1949.

Chapter five analyses the sustainable development of Chengxin Group. Based on the chapter four, this chapter make Sichuan Chengxin group, a typical family business, as the research object of the study and shows the influences that the social capital brought to the firm development. It analyzes from three aspects, the expansion of the capital scale, the expansion of the organization structure, and the diversification development.

Chapter six is conclusions and recommendation. It describes the study's main contribution and potential problems.

## **Chapter 2: Relevant theoretical literature review**

This chapter reviews the relevant literature on family business, resource-based view, the theory of social capital and familiness. These theories will be used for researching and analysing in the case of Chengxin Group.

### **2.1 Family Business**

#### **2.1.1 Definition of family business**

Theoretical circles are controversial on the precise definition of family enterprises. There are no fewer than twenty definitions of family business in the literature. The famous American enterprise historian Chandler has given a definition in his book "The Visible Hand-The Managerial Revolution in American Business" in 1987: "Enterprise's founder and its closest partner (and family) hold most of the equity, they and managers maintain close personal relationship, and keep the decision-making power, especially in the financial policy, resource allocation and high level personnel selection." In the view of Reid et al. (1999), Litz's (1997) definition is most useful. He argues that a family firm is a business in which ownership and management are concentrated in a family unit and in which individuals within the firm seek to perpetuate or increase the degree of family involvement. On the other hand, Leach et al., (1990) think that a company in which more than fifty (50) percent of the voting shares are controlled by one family, and/or a single family group effectively controls the firm, and/or a significant proportion of the firm's senior management are members from the same family, is a family business. Family business is the enterprise which closely held firm's ownership and policy making is dominated by members of an "emotional kinship group" (Carsrud 1994). Chua, Chrisman and Sharma (1999) argue that a family firm is "a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families. Ibrahim and Ellis (2004) think the family business need to meet the following conditions: at least fifty-one (51) percent of the business is owned by a single family; moreover there were at least two family members involved in the management or operational activities of the

business and the transfer of leadership to younger generation family members is anticipated. Sun (1995) points out in his paper "Familiness and Modern Taiwan Enterprises": that when a family or families with a close alliance relationship own all or part of the enterprise's ownership, and master enterprises operating rights directly or indirectly, this enterprise is family business. The direct control of the right to operate refers to the family members personally served and in charge of the enterprise, the family or the family alliance may have more than half shares of the enterprise. Indirect control is that business executives are professional managers and the main owner of the family or family alliances indirectly control the operation of the business through the professional managers.

Family economic organization is the informal organization formed by the informal institutional arrangements. Family business is often an extended family, although it bears certain economic functions, but its structure and operational mode are not different from the family (Ling Chen, 1998). Ye Yinhua (1999) a scholar from Taiwan thinks family business need to meet three conditions: firstly, the core members of the family members hold the post of chairman or general manager of the enterprise; secondly, the equity controlled by the ownership family should reach a certain scale, that is more than a certain critical hold rate; thirdly, the number of the core members of the family ,which hold the post of directors in the board, should be more than half of the seats, and owns the absolute voting control.

Wang Lianjuan (2002) thinks that family business is an economic organization that makes the kinship as the link, pursuing the benefit of the family as the primary objective, actually controlling rights as the basic means, the family at the first place as the primary principle, and the enterprise as the organization form. Yu Li (2003) believes that family business is the economic organization which is based on marriage and kinship, and sources of enterprise capital and accumulation or enterprise's management are building on the family's background. Chu Xiaoping (2004) defines family business from the family and its extended relational network, and Chinese family business is a combination of family relational contract and elements contract in which family assets are dominated. Family business is where the family members maintain enterprise's ownership and control power. It includes the enterprise form in which its ownership and control power are inseparable and tightly held by family members and the family members maintain critical control of the enterprise's assets, operation and management after the enterprise is listed. He divided family business into five forms: single proprietorship; pure family (home) system; pan family system; family holding shares in the company and family members maintaining critical control of the listed company's assets,

operation and management. Upton et al. (2002) characterized family businesses as businesses where the family ownership or control does have a significant influence on the decision making processes in an enterprise. Evidently, the relationship between the firm and the family does create a special entrepreneurial culture and philosophy which is unique to family business (Feltham et al. 2005). According to Ye Guocan (2004) in the family business the source of capital accumulation is built on the family’s background and the leadership inherited within the family.

Table 2- 1 Elements in defining of family business

Scholars	Ownership	Management	Succession	Kinship	Vision	Philosophy/ Culture
Chandler(1987)	√	√				
Litz(1997)	√	√				
Leach(1990)	√	√				
Carsrud (1994)	√	√		√		
Chua (1999)	√	√	√		√	
Ibrahim & Ellis (2004)	√	√	√			
Sun Zhiben (1995)	√	√				
Ye Yinhua (1999)	√	√				
Wang Lianjuan (2002)	√			√		
Yu Li (2003)	√	√		√		
Cu Xiaoping (2004)	√	√				
Ye Guocan (2004)	√	√	√	√		
Feltham (2005)	√	√				√

Source: Reorganized by author

In summary, there appears to be a total agreement that a business owned and managed by a nuclear family is a family business. Generally speaking, the family must hold ownership of the family business in an absolute or relative advantage, at the same time family and family members have a certain degree of involvement in the business management process. From the definition of the above scholars we can find out some of the elements in defining of family business (as shown in Table 2-1): ownership, operation and management, succession, kinship,

vision, philosophy and culture.

### **2.1.2 Family business in China**

The family business can be divided into two parts, one is the "family", and the other is "enterprise". "Enterprise" with openness, efficiency and value, of an economy; "family" is born with certain closed knit, outside the family is very difficult to intervene. Therefore, the differences in definition of family business often depend on the family's understanding, this is because the degree of ownership concentration is different, coupled with differences in company law in different countries or regions; family business in China is very different from the western family enterprises. For example, in the western developed countries, some big companies are much dispersed; family members have less than 10% of the shares, so it can be defined as the family business from the angle of capital ownership. But the number of shares owned by the family members in Chinese family enterprises, compared to western countries and Japanese enterprises, are much higher. Such as the late nineteen nineties (1990's), Taiwan Wang Yongqing family holds up to 30.25% shares of the Formosa Plastics Corp, the Li Jiacheng family holdings in the Yangtze River Industrial share reached 34.96%, the Li Zhaoji family hold Henderson real estate equity reached 68.23% (Chu Xiaoping 2004). Family enterprises also depend on the internal integration of consanguinity and affinity relationship maintenance. Sun Cure (1995) pointed out that in the modern Taiwan society, whether in politics or enterprise level, family and human relationship plays an important role in the concentration of power in the process, Chinese social organization and social behavior is influenced by family and human relationship in a large extent.

"Home" has a paramount importance in the Chinese mind. The concept of "family culture" is important in the life of the Chinese people and other Chinese-speaking regions. Wang Dingding (1995) pointed out that family culture is handed down from the most profound cultural level, and still is the behavior of the core of the Chinese people. There are obvious differences between the family members and non-members of the family. The family are a complete property unit, is the ultimate fate of the emotional ground. "Family culture" reflects the outstanding characteristics of traditional Chinese culture, to the enterprise organization and management behaviour (Chu Xiaoping, 2000). It is this heavily "family culture" mode of Chinese family relation that was naturally been transplanted to Chinese enterprises, and influenced their development. Southeast Asian Chinese enterprises from its establishment to now have hundreds of years of history, some have become modern

enterprises, but the family management and operation of the brand is still very obvious. Redding (1993) think that the Chinese family business is essentially the product of culture, the implementation of the patriarchal leadership or authoritarian leadership is a unique style, relatives of the owner are responsible for operation and management, and have a strong dedication and maintain an impartial attitude. From the Chinese history, the "family culture" is the core of Confucianism, "family culture" occupy an important position in Confucian philosophy, "family culture" is the cultural heritage and cultural foundation of family enterprises ( Han J. & Zheng X., 2004 ). "Family culture" embodies the salient features of the traditional Chinese culture, the pursuit of "a loving father and child love", emphasis on "harmony", "friendliness" is conducive to business success. In Chinese culture, care for the young is the most prominent feature, the relationship between generations is based on absolute obedience. Normally the children do not want to contradict their elders. The relationship between generations was transplanted to the family business. Managers are seen as elders, parents are just as managers throughout the enterprise and normally behave with some arbitrariness. At the same time, in the family business, as the management of the business is mostly done by the family members such as sons or brothers and sisters and other relatives, and most often because of family involvement it may result in confusion and disorder, such as incompetent members of the family promoted to management positions (nepotism), tolerance towards the family members, and even the family members acting beyond their mandate. (Fu Bi & Li Jia Rui, 2011).

In Chinese family enterprises, enterprise culture is more a manifestation of Chinese traditional family culture. Chinese traditional family culture has been generalized to each social level outside the family. Family culture thought has become the rule of thinking and behavior of Chinese and formed the forms of property rights and organization of Chinese family business. "Family culture" emphasizes a kind of cohesion and mutual support. This cohesion promoted the family enterprises in China and has a strong centripetal force based on trust for each other. It has the same values, thereby reducing the transaction costs within the organization. Japanese-American scholar Francis Fukuyama (1995) considered that, culture can be divided into high trust degree and low trust culture. High degree of trust culture refers to trust more than blood relationships, while the low trust is the trust that exists only in the relationship of the society. At the same time, according to Fukuyama, China, France and the Southern area of Italy belong to the low trust culture, in the low trust culture, people are more confident with people from their own blood. Therefore, such social relationships have also

been transplanted to the family enterprises in our country, and for example, for important positions we do not hire “outsiders”. The enterprise is exclusively for the family members, and family is based on blood.

In China, in most non-family enterprise, the Chinese family culture atmosphere can also be found. For a long time now, familism is considered to be the core of interpersonal relationship in the traditional society of China, the development trend of Chinese familism present a kind of "generalization", Chinese are concentrated in the family's experience of life, way of thinking, and the behaviour and habit had a strong influence on it, their participation on activities outside the family is based on the set of rules provided by the family (Chu Xiaoping, 2004). The Chinese home cultural rules, including family ethics, family members relationship, family system framework, family psychological recognition and acceptance, are normally generalized outside the family relationships and family organization, not these rules not only become the core of Chinese social life, economic life and cultural life, even they become the leading factor of political life (Yang Guoshu, 1998). Community, outside the family, including enterprises or state can be regarded as a "home". The familism tendency can manifested in two aspects, one is the "extended family" range. That the family is no longer confined in narrow sense has blood relationship within the family circle, but extended to "five relation culture" as the basis to identify, the so-called kinship, geographical, God relationship, industry margin, and margin. In other words, it refers to the social relationship in clan relatives, neighbourhoods, religious belief, peer classmates and material media as the five ties (Peng Zhaorong, 2000). Secondly, and according to Xiang Rong (2002), the familism tendency and scope of the family culture gradually is extended to outside of the family. Therefore, the family cultural rules are a prominent feature of Chinese family business and they are different from the western family business. (Chu Xiaoping, 2004).

The common value orientation among family members reduces the enterprise principal-agent cost and supervision cost. When there is loyalty and trust among family member's transactions cost is saved and the resources can be channelled into the enterprise. The family business can become an efficient economic organization that is because family ethical constraints of enterprises simplify the supervision and incentive mechanisms (Xiang Rong, 2002). Practice has proved that the family business is an inevitable transition to a professionally managed enterprise. The essence of this shift is the importance of family business and the integration of the social capital, the family, social relations with the formation of network performance in the enterprise as a form of social capital. (Zhang



Renshou, 2000; Chu Xiaoping, 2000). Growth of the family business is to continue with the process of integration of social capital, which requires the family business to break through the closed family capital resources and family management, continue to absorb external social capital and effective integration of human capital in order to establish a wide range of commercial network or business alliances, and shape characteristics of the core competitiveness of the enterprise culture (Chu Xiaoping, 2003).

## **2.2 Resource-based view(RBV) study**

According to the resource theory the enterprises have different tangible and intangible resources, and these resources can be transformed into one unique ability. The resources among the enterprises cannot flow and is hard to copy; these unique resources and abilities are the sources that make enterprise to maintain a lasting competitive advantage.

The core research topic on the Resource-Based View (RBV) is why the enterprises are different and how does the enterprise continue to obtain and maintain competitive advantages (Rumelt 1984; Barney, 1996). The Resource-Based View (RBV) focuses on the internal area of the enterprise, doing research on the sources and sustainability of the competitive advantage, and describes the enterprise as a collection of resources and capabilities.

The effect of resource heterogeneity made on performance was first brought out by Penrose (1959) in her book "The growth theory of enterprise". Firstly, it regards the enterprise as a collection of resources. To Penrose, "Enterprise is not only a management unit, it is also a collection of productive resources". Secondly, she thinks that enterprise is idiosyncratic for the resources the enterprise has. Penrose holds that the resources structure of enterprise can be the same, but the productive service, which provided by the resources put into use, will not be equal, and the heterogeneity of productive service cause the enterprise heterogeneity. Thirdly, the enterprise resources influence the enterprise performance. Penrose thinks that there exists correlation among physical resources, human resources and enterprise performance. The correlation between resources and firm performance is important in the enterprise resource theory. Wernerfelt expressed similar views with Penrose, in the study "A Resource-based View of the Firm" published in 1984, and this brought the resource-based theory to a limelight. Based on the premise that firms are heterogeneous, the article characterizes sustainable differences (resources), suggests that optimal competitive strategies are based on these resources, and describes how current resources can be used to develop new ones. Firstly,

it analyses the enterprise from the point of view of the resources, but not from the traditionally view point of products. Specially, the enterprise resource view analyses an enterprise which implement differentiation strategy, from another point of view. Secondly, an enterprise can identify the resource types which help it get high profits. Just like the barrier to entry, these resource types are related to resources position barriers (Wernerfelt, 1984). Thirdly, big enterprises strategically focus on the balance between the development of the existing resources and the development of new resources. Just like the "Growth - share" matrix, this balance can be regarded as "resource-product" matrix. Fourthly, the acquisition of enterprises can be regarded as the purchase of a bundle of resource in the imperfect markets. Based on the buying of scarce resources, making full use of market incompleteness, the enterprise can maximize the opportunities to buy cheap resources and to get rich rewards, in the situation that other conditions are the same. Wernerfelt thought that to evaluate the enterprise based on the resource leads to a new perspective, which is different from the traditional point of view. An enterprise's resources are defined as tangible and intangible assets that are affiliated to the enterprise temporarily and not permanently. In the analogy analysis with barrier to entry, Wernerfelt analyzes the relationship between the resources and the profitability which appears as resources potential barriers, and he pointed out that the first-mover advantages is an attractive resource that can produce high returns in the leading market.

Barney (1986) further expanded the viewpoint of Wernerfelt, and he pointed out that there are some differences in the "trading ability" among the resource elements. A tradable element is the one that can be identified, and its monetary value is decided by the strategic factor market. Barney thinks, also, that strategic decision-making should be mainly based on the skills and abilities analysis that enterprises owned. Barney (1986) pointed out that enterprise with continuous high performance usually have the special organizational culture that is valuable, scarce and difficult to imitate. In his research, Barney (1991) thinks that there may exist some heterogeneity or differences between the companies, and these differences make some of the companies to maintain the competitive advantage. So, the theory of resource-based view emphasises the strategic choice, and it thinks that the strategic task of the company management is to find, develop and allocate these different key resources, aiming at maximizing the business returns. The frame of resource-based view of Barney is given in figure 2-1 below:

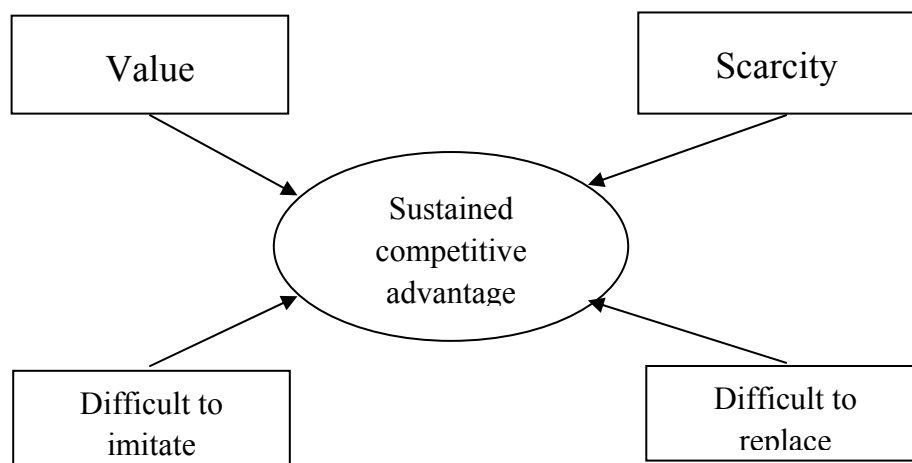


Figure 2- 1 The frame of resource-based view of Barney

Source: Barney, J.(1991), Firm resource and sustained competitive advantage, *Journal of Management* 17(1), 99-120.

Peteraf (1993) explanation about the enterprise competitive advantage is different from what Barney thinks. Peteraf pays more attention to the basic price theory, especially to the different types of rent.

According to Peteraf (1993), the resources controlled by the enterprise, which produce sustainable competitive advantage, should meet four conditions at the same time. The four conditions are very important. Firstly, the enterprise can get rent when relies on resource heterogeneity. Secondly, the enterprise should get high quality resources paying less than the real rent cost. Thirdly, the rent will be kept in the enterprise, relying on the incomplete liquidity of the resources. Fourthly, to keep the rent depends on the restriction of the resources competition. The analytical framework of resource-based view of Peteraf is shown in figure 2-2 below.

Most scholars claim that only those intangible resources can make distinctive difference for the enterprise and only the intangible resources are the source of enterprise competitive advantage. The recent studies of Galbreath and Galvin (2004) found that this kind of connection is not always correct, although the resource-based view do support the relationship between the intangible resources and enterprise performance.

An explanation is that, there may exist a certain relationship among the resources, and the production of a kind of resource advantage may depend on the existence of another kind of resources. So, there is no resource that can be the source of enterprise performance alone, weather intangible resources or other resources.

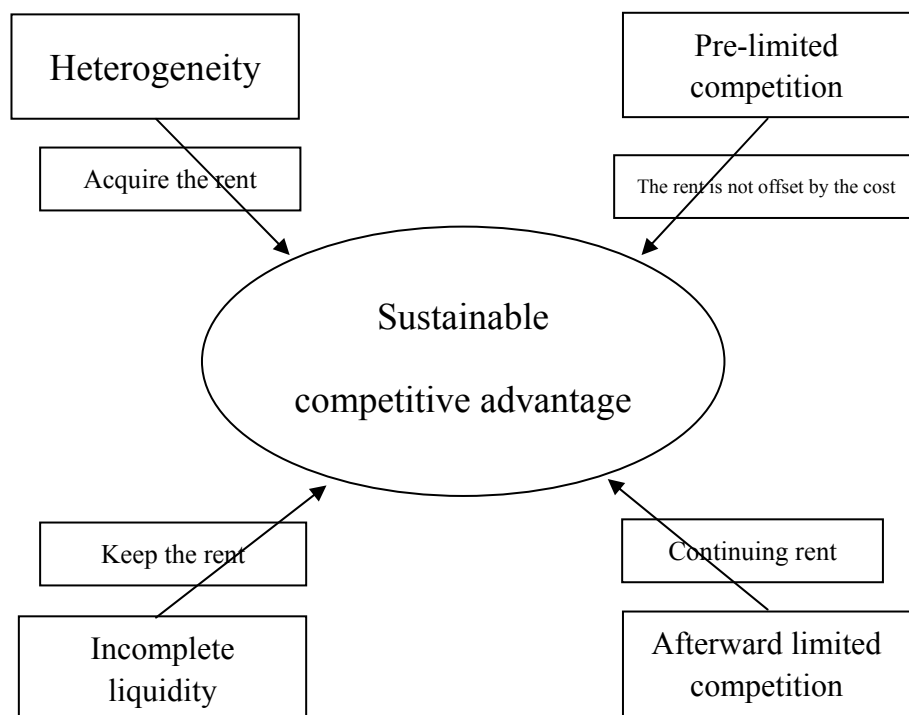


Figure 2- 2 The analytical framework of resource-based view of Peteraf

Source: Peteraf, M.A. (1993), The Cornerstones of Competitive Advantage, a Resource Based View, Strategic Management Journal 14(3), 179–191

In these view, the most representative is the dynamic capability perspective (Teece et al, 1997). To this theory, the core competence theory has some limitations that the original core competence of enterprise may become a burden and hinder the development of enterprises. So, it cannot explain how the enterprise gets competitive advantage and why some enterprises have a sustainable competitive advantage in the dynamic market. They defined the dynamic capability as enterprises can integrate, construct and reconfigure the external and internal ability to deal with the rapidly changing environment. Based on the resource-based view, and as the inheritance and development of the theory, dynamic capability theory gradually formed and obtained rapid development. The summary of research results about resource-based view is given in table 2-2.

Table 2- 2 The summary of research results about resource-based view

Scholars	The Main Point Of View
Derrick & Cool (1989)	The key resource of enterprise is relying on accumulation, not to buy in the strategic market. The persistent position of the enterprise's assets is depended on the level of difficulty to replaced or imitated.
Pralhad & Hamel (1990)	The core competence is the source of competitive advantage. Enterprise should integrate the resources and skills into the core competence with group learning properties.
Conner (1991)	Based on the view of resource, focusing on the characteristics that the source of the enterprise economic rent is hard to duplicated, though compared with the viewpoint of the five big schools in industrial organization field, it is concluded that the view of opportunity and resource is the right new theory to do the enterprise research.
Fiol (1991)	Regard the management of the organization culture cognition process as the most important resources of competitive advantage in industry enterprises.
Grant (1991)	Enterprise resources and abilities are the core problems and should be taken into account when making enterprise strategy. Enterprises need to design the strategy that can maximum its unique characteristics. The feathers of the resource and ability, which decide the enterprise sustainable competitive advantage, include that durability, transferability and reproducibility.
Mahoney & Pandian (1992)	According to the different production mechanism of the rent, it can be divided into monopoly rent, Ricardian rent and entrepreneur rent. The Ricardian rent is acquired by the resources that are scarce and valuable.
Amit & Schoemaker (1993)	Since the incompleteness of resources market and the randomness of management decision-making on resources development and configuration, there exist some differences in the control of resources and abilities, and these differences can be the source of sustained economic rent.
Hall (1993)	Identify all intangible resources, and these intangible resources make the enterprise have heterogeneous abilities that produce sustainable competitive advantage.
Black and Boal (1994)	Enterprise resource is constituted by elements network, and the elements network includes the relation that formed among the elements and resources. The relation can lead to the production of resource characteristic that contains the competitive advantage. These resources relations of strategic elements include network type, available substitutes and strong relationship.
Conner and Prahalad (1996)	In the theory framework of RBV put forward, the enterprise theory is based on the knowledge. In the process that the enterprise to gain the competitive advantage, the consideration based on knowledge is more important than that based on opportunistic.
Teece, Pisano and Shue (1997)	The competitive advantage of enterprise comes from the dynamic capability that is to cope with external environment change and constitute by the excellent management and organizational process of enterprise, specific composition of asset and the path dependence of the firm evolution.
Eisenhardt & Martin (2000)	Dynamic capability is the source for enterprise to get competitive advantage in dynamic environment.

Source: Reorganized by author.

## **2.3 Social capital theory**

In the field of modern economics and management, it is often said that the success of an enterprise is often closely related to whether the operator has a wide range of social interactions and contacts. Through such exchanges and contacts, the enterprise can get valuable information and capture important opportunities, involving the spending of scarce resources and the striving for the low risk and big profit production projects. Thus the enterprise can avoid the short advantage and forward the strengths in the increasingly fierce competition, and remain the invincible position (Yanjie Bian & Haixiong Qiu, 2000). If this heterogeneous exchanges and contacts are used properly, it will bring additional value to the enterprise. So the exchanges and contacts are also seen as a form of social capital by many scholars. In terms of family business, the core of family business's growth is how to fuse with various society capitals. Essentially, the growth of enterprise is the process of effective integration of social capital constantly. Barriers to the enterprise's growth are not effective integration of social capital, the fading or mortality of enterprise is the interruption of the integration process of social capital (Xiaoping Chu & Huaizu Li, 2003).

### **2.3.1 Social Capital**

The origin of social capital as a concept can be traced back to the 1960s. Jacobs (1961) described social capital as relational resources within a community and family. Contemporary social capital theory is inseparable from the contribution of Bourdieu (1986), Coleman(1988), Putnam (1993), Granovetter (1985), Fukuyama(1995), Burt (1992), Lin N. (2001). So far the academia has still a lack of a unified understanding of the concept of social capital. In the 1970s, the French scholar Pierre Bourdieu (1986) clearly describes the concept of "social capital", he believes that social capital is the actual or potential aggregate of resources which is obtained by the possession of the institutionalized relational network. American scholar Coleman (1988) published the paper "Social Capital in the creation of Human Capital" in the *Journal of American Sociology* in 1988. It is the first time that the American academia uses explicitly the concept of social.

The social capital theory can be classified into three schools. They are: school of social norm, school of network embeddedness and school of social resources. The main representative figures and ideas of the three schools are expounded respectively.

### **(1) School of social norm**

The main representative figures of the school of social norm are Coleman, Putnam, and Fukuyama. They regard the social capital as a kind of shared values, norms and constraints. It can promote cooperation within and between enterprises.

American scholar Coleman is the most important person in promoting social capital theory development. He has carried on systematic and all-round discussion on social capital. Coleman (1988) defined social capital as any aspect of social structure that creates value and facilitates the actions of the individuals within that social structure. He regards social capital as individual social structure resources, and actors can realize their own interests through these structured resources, and that obligations and expectations, information channels and social norms are three main forms of social capital. Coleman's contribution is that he explicitly regards social capital as a social structural factor, which provides necessary foundation about the social capital development from the micro to the macro. A social and economic development is highly subjected to the richness of social capital. Economists concerned about the norms and the network which formed in the process of social interaction and how they have a positive effect on economic development. As a political scientist, American scholar Putnam (1993) defines social capital as features of social organizations such as networks, norms, and social trust that facilitate coordination and cooperation for mutual benefit and which reduces the opportunism behaviour within the community. Japanese scholar Fukuyama (Fukuyama, 1999) thinks that social capital is the informal values and norms shared among community members and it can promote mutual cooperation. Cohen and Prusak (2001) state that social capital consists of the stock of active connections among people: the trust, mutual understanding, shared values and behaviours that bind the members of human networks and communities and make cooperative action possible. Because of the role social capital plays in promoting economic development and poverty eradication, the World Bank carried out a research on social capital in 1996. From a financial and developmental perspective, the World Bank (1997; 2002) defines social capital as the institutions, relationships and norms that shape the quality and quantity of a society's social interactions to enable people to coordinate action to achieve desired goals. OECD (2001) points out that social capital is the network and shared norms, values and understanding, which can promote cooperation within groups or between groups.

### **(2) School of network embeddedness**

From the social network perspective, school of network embeddedness defined social

capital as a kind of capital which can create value through the use of interpersonal relationship embedded in the social network. And the main proponents of this theory are Granovetter, and Burt.

Granovetter (1985) thinks no matter in early or the modern society, behaviours and systems are limited by social relationships, economic behaviours will be impacted by the ongoing social relationships. Therefore he proposed the concept of society embeddedness. Burt (1997) thinks social capital as a kind of opportunity. He thinks that social capital is through the use of the embedded relations among the people (friends, colleagues, general contacts), in order to achieve individual social capital and wealth creation, meanwhile he puts forward the concept of structural holes.

### **(3) School of social resources**

The main proponents of the school of social resources are Loury, Bourdieu, Baker, and Lin N. They regard social capital as a kind of resources which is embedded in the social network. This resource can be real or can be potential.

Loury (1977) uses the concept of "social capital" to discuss the problem of inequality between races. He argues that individuals have different levels of social capital; the utilization of social capital provides different outcomes. That means, that two persons possessing a similar level of human capital may not obtain the same outcome due to differences of the level of their social capital. Bourdieu (1986) offered the first systematic contemporary analysis of social capital defining the concept as the aggregate of the actual or potential resources, which are linked to the possession of a durable network of more or less institutionalized relationships of mutual acquaintance or recognition. From the business stand point, social capital refers to many resources—information, ideas, business opportunities, financial capital, power, emotional support, goodwill, trust, and cooperation—available to us in and through personal and business networks (Baker, 2000). Chinese American sociologist Lin N. pointed out that individuals can obtain resources conducive to their own interests from their own social network when they engaged in purposeful action. The theory of social capital as described by sociologist Lin N. (2001) refers to investment in social relations with expected returns in the marketplace. He further pointed out that the social capital theory should be built on the basis of social network analysis. Lin N. emphasises on the power, wealth, prestige and social resources is being embedded in social network. People who lack these resources can take or borrow through social network, while the use of social resources is an effective way for individuals to achieve instrumental goals. Enterprise social capital should



be controlled by enterprise, and should help the enterprise to achieve its objectives and goals, and obviously are resources embedded in the enterprise network structure (Xiaohu Zhou & Chuanming Chen, 2009).

### 2.3.2 The Types of Social Capital

The current body of knowledge represents three levels of social capital (Akedere 2005): macro, meso, and micro.

#### (1) Social Capital at Macro Level

At macro level, social capital includes institutions such as government, the rule of law, civil, and political liberties (Grootaert, 1999).

At macro level, social capital deals with government effectiveness, accountability, and the ability to fairly enforce rules; economic growth in terms of enabling or disabling the development of domestic firms and markets; and encouraging or discouraging foreign investment (Rodrik, 1997; Putnam et al, 1993).

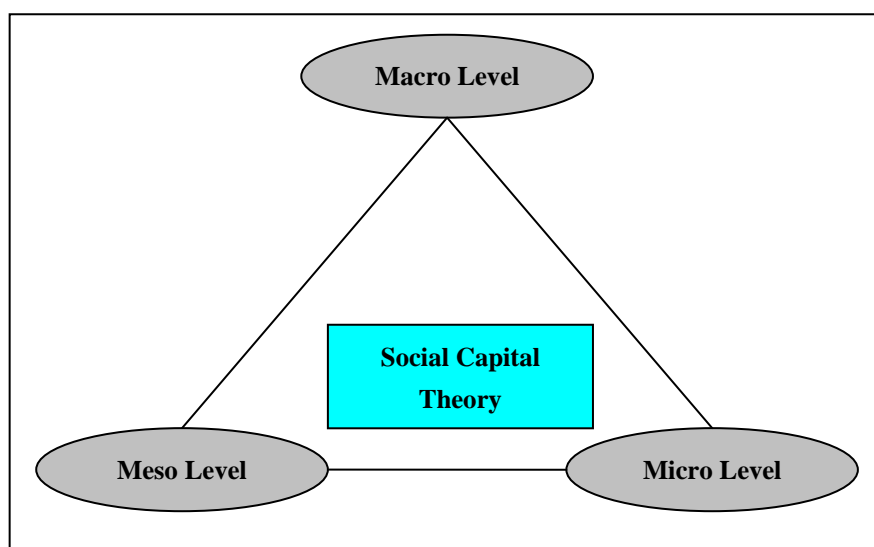


Figure 2- 3 Levels of Social Capital Theory

Source: Akdere, M. (2005), Social Capital Theory and Implications for Human Resource Development, Singapore Management Review 27(2), 1-24.

#### (2) Social Capital at Meso Level

Social capital at meso level refers to the networks and norms that govern interactions among communities (Grootaert, 1999).

Social capital at meso level also refers to social identity and belonging, organizations, and inclusion of insiders and exclusion of outsiders in a common social circle (Coleman, 1990).

### **(3) Social Capital at Micro Level**

At micro level, social capital emphasizes the individual's ability to mobilize resources through local network institutions such as community-based organizations, extended families, and social organizations.

Dense and overlapping social networks increase the likelihood of economic cooperation by building trust and fostering shared norms (Grootaert, 1999). Social capital generated within and between firms is especially important for lowering risk and uncertainty at micro level (Fountain, 1998). Social capital at this level enhances valuable information exchange about products and services; and, furthermore, it reduces the costs of contracts and extensive regulations and enforcement.

In organizations, micro level social capital refers to recognition (Lin, 2001; Coleman, 1990), cooperation and personal trust (Mutti, 1983), solidarity, loyalty, reputation, and access to sensible information (Lin, 2001). In organizations, social capital at micro level is concerned with the demographic features of employees, length of employment, and human capital. Overall, social capital at micro level is about the steady relations of ego with others, individual development, and personal growth.

#### **2.3.3 The characteristics of social capital**

According to Zhou Xiaohu & Chen Chuanming (2004) a resource becomes a social capital if contributes to the realization of business goals, that means social capital resources is something contingent. Social capital is the social network as the carrier, to mutual rules as constraints, may result in trust. Social capital exists between individuals, together through individual interaction. Where there is no certain social organization and social contact among individuals within an organization, social capital cannot be formed.

As a special form of capital, social capital, both social attributes and attribute of capital, has the common nature of capital and has its own characteristics. These are, physical capital, financial capital, social capital and the risk of devaluation. Social capital needs to continue to devote resources to consolidate and maintain, this input upon termination, social capital depreciates and even disappeared. In the great social change or network changes, social capital will also decline or disappear, such as political changes, social changes and the relationship between network member's change and network structure changes. Secondly, social capital can generate future income; social capital contributes to the network and the members of the organization with a relatively low cost access to resources (Bourdieu, 1986).

Finally, social capital and other capital forms can be transformed into each other (Bourdieu, 1986). Social capital can be transformed into others resources such as material capital and human capital, for personal use of social networks to get jobs, received a good education.

In addition, the social capital also has its own characteristics different from material capital and financial capital. Where corporate social capital is not used it will deplete. Corporate social capital is difficult to observe and measure the invisible, also difficult to transfer. Based on the study of Coleman(1988) social capital has the following three characteristics:

Firstly, non-transferable: Social capital is dependent, it exists in the network, and with the existence of the network, with the network's disappearance of it, it is difficult to transfer from the relationship between network within the individual to other individuals, and has its use relatively fixed, it does not have the nature of private goods, not belonging to the actors, but exists among actors, is " relationship " in the capital.

Secondly, reciprocity: Both social capital link network behaviour, a party to the use of social capital transaction with another party or cooperation, both sides can make the trade benefit, this is a process of economic significance of Pareto improvement. Social capital can promote the rational choice between individuals; can effectively solve the problem of public land tragedy, so as to promote the growth of the collective welfare.

Thirdly, renewable: Unlike ordinary material products, social capital has the characteristics of increasing marginal utility in use, with the increasing number of use and investment. We say we are dealing with people "a back to back" can also reflect the meaning. In all organizations there exist at least two levels of social capital that the enterprises may link with other actors to obtain a competitive advantage. It plays the role of "bridge"; at the same time, internal social network and standardize the integration of actors within the organization which fosters cooperation among the members which often aid the enterprise to achieve its goal.

Critical resources as a social-capital, there are two levels of social capital in the organization, that is the enterprise may obtain a competitive advantage in key resources with other actors, which plays the role of a "bridge"; at the same time, internal social networks and norms integration of actors within the organization, cooperation among the members of the unity which plays the role of a "glue" often used by the enterprise to achieve their goals.

#### **2.3.4 The measurement of social capital**

The measurement of social capital mainly has two viewpoints (as shown in Table 2-3): one is Nahapiet and Ghoshal (1998) who divided it into three dimensions of corporate social capital; another is the three indexes of Chinese scholars Bian Yanjie & Qiu Haixiong (2000).

According to the business enterprise network embedding degree, enterprise social capital can be divided into three dimensions (Nahapiet & Ghoshal, 1998): structural, relational and cognitive. Structural dimension refers to the sum of the various links of the enterprise, its analysis focused on the contact characteristics prevalent in enterprises, such as the contact strength, density and centre of the structural features. Relational dimension highlights the dual structure of interpersonal relationships; its analysis focuses on how to obtain scarce resources through creating and maintaining interpersonal relationship. The concept of structural dimension and relational dimension inherited the idea of Granovetter's structural and relational embedded. If the structural dimension is about whether the enterprise network exists, then the relational dimension is about the quality of the enterprise network, like, in these relations whether it has the trust, whether it has the privacy (Bolino, 2002). Cognitive dimension is the cognitive paradigm in network, like, whether it has the common experience, the common language, the common standpoint and viewpoint. The relational dimension is related the emotion quality of relation, the cognition dimension is about the cognitive quality of relation.

Table 2- 3 The measurement of social capital

Scholars	Index	Measurement items and operating instructions
Bian & Qiu 2000	Longitudinal relation	whether the enterprise legal representative has served in the superior leadership authorities
	Horizontal relation	whether the enterprise legal representative has taken the post of management, operation and other leadership positions in any other cross-industry enterprises
	Social relation	whether the enterprise legal representative has a wide range of social interaction and contact
Nahapiet & Ghoshal 1998	Structural dimension	The sum of the various links of the enterprise. Focus on the contact characteristics prevalent in enterprises, such as the contact strength, density and center of the structural features.
	Relational dimension	Highlight the dual structure of interpersonal relationships. Focus on how to obtain scarce resources through creating and maintaining interpersonal relationship.
	Cognitive dimension	Focus on whether it has the common experience, the common language, the common standpoint and viewpoint and so on.

Source: Reorganized by author

According to Bian and Qiu (Haijie Bian & Haixiong Qiu, 2000), enterprise social capital can be measured by three indicators: longitudinal relation, horizontal relation and social relation. The first indicator is whether the enterprise legal representative has served in the superior leadership authorities. Our hypothesis is that enterprise representatives who worked in higher authority give the company an advantage and not vice versa. The second indicator is whether the enterprise legal representative has taken the post of management, operation and other leadership positions in any other cross-industry enterprises. Assumption about this indicator is that if the enterprise legal representative has this kind of experience mentioned above, it shows that the enterprises horizontal relation has the advantage and not vice versa; The third indicator is whether the enterprise legal representative has a wide range of social interaction and contact, and whether the enterprise gets an advantage in these social relations or it is to the enterprises disadvantage.

## **2.4 Familiness**

Habbershon and Williams (1999) first introduced the term "familiness," describing it as "the idiosyncratic firm level bundle of resources and capabilities resulting from the systems interactions".

The "familiness" reflects the systematic relationship among the members of the family of a specific enterprise, individual members of the family and the enterprise (Habbershon, 1999, 2003, 2006). It is the interactive result of family ownership, management participation and the intention of intergenerational succession (Chrisman, Chua and Steier, 2005), and essentially reflects the uniqueness and diversity of the resources and the bundle of resources that the family enterprise has. These differences include a series of resource factors, which we named as familial resource, for example the differences in family businesses just like leadership, culture, social relation network, the internal relations of enterprise, capital, corporate governance, the behaviour of decision-making and knowledge.

Within this view, the construct "familiness" has been developed and widely accepted to describe the unique bundle of resources (available for establishing a strategic advantage) held by and particular to family firms as a result of their unique systems, interaction among the family, individual members, and the business itself (Cabrera-Suarez et al., 2001; Habbershon & Williams, 1999). Chrisman, Chua, and Litz (2003) described the concept as "resources and capabilities that are related to family involvement and interactions"

There are many papers on familiness, and the examples of familiness research are given in table 2-4.

Table 2- 4 Examples of familiness research

<b>Research study</b>	<b>Theoretical viewpoints</b>	<b>Research conclusions</b>
Craig and Moores (2005)	Evolutionary theory	Describe familiness as a "core essence" of family firms and integrate the concept into a strategic balanced scorecard approach.
Ensley and Pearson (2005)	Top management team and social capital theory	Group dynamics of family firms are defined by interactions of the top management team; "familiness" is positively related to group dynamics.
Hayton (2006)	RBV of the firm and systems theory	Familiness as it related to successful or unsuccessful HR practices for family versus nonfamily firms.
Lester and Canella (2006)	Social capital theory	Interorganizational familiness as reflected in the broad linkages that create and support family firms.
Ram and Holliday (1993)	Family sociology	Familiness represents the social relationships of the family, reflected in the flexibility and constraints created within the workplace.
Tokarczyk, Hansen, Green, and Down (2007)	RBV of the firm	Qualitative study, which links familiness as a competitive advantage through improved market orientation.

Source: reorganized by author

## **Chapter 3: Research design and methods**

This chapter describes the research method of this thesis, and introduces the data collection methods to be adopted. Among the data collection methods mainly the researcher will adopt the collection of primary data in the form of in-depth interviews at the chosen case study and the use of secondary data mainly from listed corporation in the industry as well as the use of macro-economic data.

### **3.1 Research methods: case study**

#### **3.1.1 Research philosophy**

In any research study, it is necessary to lay emphasis on the importance of the philosophical basis prior to the research. Easterby Smith (1997) put forward three fundamental facts to emphasize this importance, and they are as follows: Firstly, researchers can get clear thoughts and frames in their design of research methods and strategies from the philosophical concept. Secondly, different methods and tactics are compared and evaluated before the research progresses. Finally, philosophical concept inspires the researchers to apply new methods during the research.

Positivism and interpretivism are two kinds of analytic philosophy, and they are applied in the scientific research, in which positivism is a quantitative analysis model frequently used in the investigation, while interpretivism is a qualitative analysis model often adopted in the research (Hirschheim, 1985). The former is also called empiricism, and its essence is that one can acquire regular and observable facts from the objective viewpoints, while the other one, also called post-positivism, states that one can know the connotative law of the phenomenon from the subjective explanation.

Frank Crossan once pointed out that the differences between positivism and interpretivism were excessively overstated, and one should make clear the advantages and disadvantages of each analysis model. Qualitative analysis philosophy is applied in this study to develop the main research content.

#### **3.1.2 Case study**

The most frequently-encountered definitions of case studies have merely focused on the types of topics to which case studies have been applied. For example, in the words of one observer: the essence of a case study and the central tendency among all types of case study is that it tries to illuminate a decision or a set of decisions: why they were taken, how they were implemented, and what is the result (Schramm,1971).

Case study is one of the ways to do social science research. Other ways include experiments, surveys, histories, and the analysis of archival information. Each strategy has its own advantages and disadvantages. The selection among these strategies depends on three conditions: firstly, the type of research question; secondly, the control an investigator has over actual behavioural events; thirdly, the focus on contemporary as opposed to historical phenomena.

In general, case study is the best strategy when "how" or "why" questions are posed, when the investigator cannot control over the events, and when the focus is on a contemporary phenomenon within real-life context. Such explanatory case studies also can be complemented by two other types—exploratory and descriptive case studies which are great care in designing and doing case studies to overcome the traditional criticisms of the method.

Using case studies for research purposes remains one of the most challenging among all social science endeavours. The goal is to design good case studies and to collect, present, and analyze data fairly. A further goal is to bring the case study to closure by writing a thesis.

As a research strategy, case study is contributes to the knowledge of individual, organizational, social, and related phenomena, and case study is used in many situations, for example it can be used in psychology, sociology, political science, social work (Gilgun, 1994), business (Ghauri & Gronhanug, 2002), and community planning (Robert K.Yin, 2002). Case studies can be used even in economics, for example, using the case study method to investigate the structure of a given industry or the economy of a city or region. Through these situations, we can see that it is the desire to understand complex social phenomena that bring the distinctive need for case studies. In brief, case study allows investigators to maintain the real-life events, for example the life cycle of individuals, the processes of organizations and management and the international relations.

Galliers (1991) has defined fourteen research methods, and case study is the most widely-used. In the case study, generally a single object, an event or an organization is investigated in detail. Based on the analytic philosophy, investigator can use the positivism or interpretivism model in case analysis. So they can get the essence comprehensively through



the right research method and data collection. The main process of case study is as follows:

There are four indexes to evaluate the design quality of case study. They are internal validity, external validity and reliability, construction validity.

Researchers can get systematic viewpoints from the case study. They can clearly understand the causality of the event by inspecting the study objects in depth. However, the effectiveness of case study will be greatly influenced by some factors, such as the analytical nature of the case study, the limitation of the technique, the subjective preference and the intensiveness of time and labor.

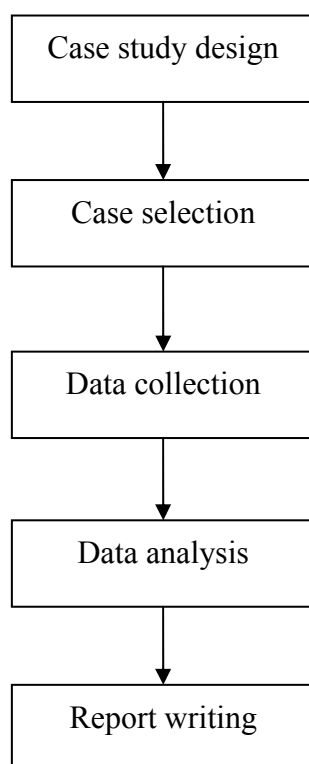


Figure 3- 1 Flow chart of case study

Source: Reorganized by author

### 3.1.3 Other research methods

Based on the definition of Galliers (1991), a series of research methods have been applied in the academic research, which are shown in Table 3-1.

In the scientific research, there are mainly two methods, positivism and interpretivism, and many sub-types are contained in each broad category. But we will not discuss more details of these research methods here. Based on the advantage and disadvantage of the case study, and the availability of the information, we will use the case study in the later analysis.

Table 3- 1 Classification of research methods

<b>Positivism</b>	<b>Interpretivism</b>
Laboratory test	Argument/refutation
Field test	Comments
Investigation	Research
Case study	Descriptive/interpretative
Theorem proving	Future research
Prediction	Role play
Imitation	

Source: Galliers, R.D.(1991) choosing appropriate information systems research approaches: a revised taxonomy.

## 3.2 Data collection

The data that used in the case studies can come from many sources, such as documentation, archival record, interview, direct observation, observation and physical artefact. Each of them has its own advantages and disadvantages. In this thesis we choose diverse approaches to gather information, including in-depth interview and secondary data.

### 3.2.1 First hand data: in-depth interview

The in-depth interview is one of the most important sources of case study information. This observation may be surprising because of the usual association between interviews and the survey method. But, interviews also are essential sources of case study information. The interview will appear to be guided conversations rather than structured queries. In other words, although you will be pursuing a consistent line of inquiry your actual stream of questions in a case study interview is likely to be fluid rather than rigid (Rubin, 1995).

This study adopts the way of open interviews, and respondents are allowed to speak freely around the core issues for getting the valuable ideas and problems. Chengxin Group is a large enterprise with many levels, so the numbers of interviews between the senior and the middle staff are distributed. Because the research issues are related to the company's organization, the proportion of the interviews for first-line people is not high. In short, the sources of the case data are multiple, objective and rich, especially there are many first-hand information, which can support the follow-up study. Details are shown in table 3-2 and table 3-3.

Table 3- 2 Interviews with family member

<b>Interviewees</b>	<b>Main contents</b>	<b>Department post</b>
Mother of Mr. Hu	Development of the family and the family business	None.
Uncle of Mr. Hu	Development of the family and the family business	None.
Brother of Mr. Hu	His role in the family business development. The future development of family business.	Vice President.
Cousin of Mr. Hu	His role in the family business development. The future development of family business.	None.

Source: reorganized by author

Table 3- 3 Interviews with senior and the middle staff

<b>Interviewees</b>	<b>Main contents</b>	<b>Department post/ Relation with Mr. Hu</b>
Mr.Wang	The Core competitiveness of Chengxin group. The company's basic situation and development strategies.	President/Classmate of Mr. Hu
Mr. Hu	His role in the family business. The Core competitiveness of Chengxin group. The company's basic situation and development strategies.	Vice President/Young brother of Mr. Hu
Zhan Yonglin	His role in the family business. The Core competitiveness of Chengxin group. The company's basic situation and development strategies.	Vice President/Professional manager
Chen Li	His role in the family business. The Core competitiveness of Chengxin group. The company's basic situation and development strategies.	Vice President/Professional manager
Zhu Hongzhao	His role in the family business. The Core competitiveness of Chengxin group. The company's basic situation and development strategies.	Vice President/Professional manager
Luo yongbing	The main work of his department. His view about the development of the company.	Manager of the catering sector.
Li maoxian	The main work of his department. His view about the development of the company.	Manager of the catering sector.
Li chaozhong	The main work of his department. His view about the development of the company.	Manager of the catering sector.
Liu yanjun	The main work of her department. Her view about the development of the company.	Manager of the catering sector.
Zhang ju	The main work of her department. Her view about the development of the company.	Manager of the financial sector.
Sun jian	The main work of his department. His view about the development of the company.	Manager of the financial sector.
Wang guobo	The main work of his department. His view about the development of the company.	Manager of the audit and human resources sector.
Luo xuan	The main work of her department. Her view about the development of the company.	Manager of the audit and human resources sector.
Zheng ming	The main work of his department. His view about the development of the company.	Manager of the Beijing branch.
Xiong jing	Her view about the development of the company.	Assistant to the chairman.
Li lijuan	Her view about the development of the company.	Assistant to the chairman.
Pu jun	His view about the development of the company.	Assistant to the chairman.

Source: reorganized by author

### **3.2.2 Secondary data**

Differing from the original data, secondary data are the literature materials collected and collated by others for different purposes. They generally include the data obtained by other researchers and research institutions through the survey, or collected by the governmental institutions. In management research, secondary data method is widely applied. Although this study does the studies for the specific enterprise, but, embedded in the Chinese environment, this study uses lots of secondary data mainly coming from the notices of statistics departments, industry associations, listed companies and network resources, and they are mainly the macro-economic data, industry development data, and enterprises' competition data. Secondary data often owns a large amount of sample and information, and suits for long time data analysis. In addition, secondary data is relatively objective and strongly convincing based on its source (Chen Xiaoping et al, 2008).

After data collection, the next is collation and analysis. The study mainly filters, codes, classifies and selects the data related to the research subject for further analysis. This process combines with the case writing, and also improves the evidence, modifies the design to obtain the relevant theory.



## **Chapter 4: Development of Chinese family business**

Although family business once disappeared in China's mainland due to political reasons, the "familism" and "Pan-familism" never left China since family business emerged in China. Even so, as in the most prosperous period of the planned economy system, while family business existed in a covert or latent form, and made an influence on political and economic activities and this should not be overlooked (Chu Xiaoping, 2000). After the end of the Opium War, previous family businesses sprouted as an alternative and a complement to traditional family hand workshops. This form of family businesses struggled to survive and develop during the semi-colonial and semi-feudal society periods. While China introduced the "Soviet Model" of family businesses shortly after the founding of the new China, which model made family business almost extinct. Until the 1980s, that is the economic transition period, new family business appeared, family business renew a life from the "underground economy" form, and from then the Chinese family business and has been developing steadily.

This chapter reviews the history of the development of the Chinese family business. This development can be divide into four stages: the first stage is from the ancient China to the establishment of the People's Republic of China (Ancient China-1949), the second stage is from the founding of the People's Republic of China to the Open Door Policy(1949-1978), the third stage is form the Open Door Policy to Deng Xiaoping's southern tour speech<sup>1</sup>(1978-1992), the fourth stage is from Deng Xiaoping's southern tour speech to now (1992 - Now).

### **4.1 Chinese family business before 1949**

In traditional Chinese society, the family institution played a very important role as an

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<sup>1</sup> In early 1992, China former leader Deng Xiaoping paid a visit to a few southern cities, including Shenzhen, the most successful Special Economic Zone. During the tour, he criticized those who harbored doubts about the country's reform and open-up policy and stressed the importance of economic development. Deng urged the Chinese people to further emancipate their minds, be bolder and develop faster than before in conducting reform and opening up to the outside world. This was also called the Second Movement to Emancipate Minds. During the tour, Deng also creatively solved some of the major problems which had troubled China, especially the relationship between socialism and a market economy. He noted that a market economy did not equal to capitalism and that socialism also has its own market. Deng's talks, which helped bring China's reform program back on track, are considered to have had far-reaching historic significance for the country's economic development.

indispensable auxiliary power for feudal regime in the political and economic life. In the economic structure of self-sufficiency, a production technology, especially the handicraft production techniques, was first done by the families. Family handicraft production was special to the Ming and Qing Dynasties, who monopolized the production technology and increased in the formation of its brand-name such as the He family's cloth in the Goulan alley of Beijing, Chen family's jewellery in the Qianmen Bridge, Lee family's caps in the Twin Towers Temple, Dang family's shoes in the Dong Jiang Mi Cang, Song family's boots in the Da Shi Lan, Diao's pill in the Emperor's Temple (Street et .al.) They were all famous for a while and family capital was then tens of thousands. Generally speaking, however, cottage industry which developed for thousands of years has failed to establish a modern industrial economy in China. There are at least three reasons: First, centralized family regime extended their way of managing the household to the range of state governing. They regard the rulers and ministers as the fathers and sons, and regard the country as a family. They did not approve the adjustment of interpersonal relationship with any material interest principle. The second reason is the cultural traditions that think highly of politics while looking down on agricultural, industrial and commercial activities. Business ranks at the end of the four kinds of people. Business has no social status in China traditional Confucian culture. Thirdly, in the feudal family there was always a strong support for conservative family secret. The secrets of the family remained within a family, therefore technology innovation was very slow. The feudal family regime and the development of the family handicraft industry were together the initial stages of family business, but it found it hard to grow into a modern enterprise.

From the end of the Opium War in 1840 to the establishment of the People's Republic of China in 1949, recorded a period of internal and external problems and the history of the national survival in the modern history of China during this more than one hundred years. It is in these kinds of turbulence intense process of change that the development of a free market economy hampered, and corporate organizations cannot be formed which gave birth to the various family businesses. There are two main reasons for the appearance of family businesses: First, the accumulation of several thousand years' family manual skill has provided the extant technique of production and skilled craftsman for its emergence. Second, foreign guns and cannons opened the Chinese front door, and break the traditional self-sufficient ideological imprisonment at the same time. The commercial behaviour of colonial rulers which dumped massive goods and invested in the setting up factories in China, on the one hand, gave birth to the free exchange of market economy and firm organizational



model. On the other hand, they also made the self-sufficiency of smallholder agriculture and family hand workshop unsustainable, and product demand market and labour supply market gradually appeared. Third, when the internal disorder and foreign invasion lead to national survival, the social elites then changed from their official career to the determination that establish the industry to save the nation by such entrepreneurs as Zhang Jian. Fourth, the feudal family bureaucracy saw that industry can defend the regime forces and also is the way that one kind amasses money to increases revenue. Therefore they present the bureaucratic capitalism that combined capital with technology and labor force. The national policy also leans to helping national enterprise development. For example the new government of the Republic of China established in 1912 took measures to reward the establishment of industry, and stimulated the strong demands and wishes of businessmen and capitalists to further develop the industry. The previous family business that grew obtained a certain degree of development, and appeared to be large-scale family business, for example the Rong family business. However, the long-term foreign invasion and warlords melee, led to a disorder of the social order as well as the financial and monetary system. This obstruction and poor information, makes the development of family business difficult, especially the existence of family regime dominant force of the four big bureaucratic families of the Jiang, Song, Kong, and Chen families. They adopt measures to suppress exclusion and mergers means to compete with people. In view of that the development of family businesses was difficult to develop in the semi-colonial and semi-feudal society.

## **4.2 Chinese family business during 1949-1978**

After the establishment of new China, China learned and reproduced the Soviet economic model and implemented the planned economy system on the allocation of resources, taken on the state ownership, collective ownership in cities and towns and rural people's commune system of ownership of means of production. This means that individuals may not hold private property, and all the fruits of labor will be divided equally. While China walked the road of self-enclosed in foreign relations it caused more havoc due to the ten years "Cultural Revolution"<sup>2</sup>, leading China's national economy almost to the point of collapse before 1978. In 1948, immediately prior to the establishment of new China, China's average

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<sup>2</sup> "Cultural revolution" full name is "proletarian cultural revolution", refers to a political movement wrongly started and leadership by Mao Zedong, and used by Lin Biao and Jiang Qing two counter revolutionary groups, brings to the Chinese nation serious disaster from May 1966 to October 1976 in China.

per capita GDP ranked the world 40th place, while China's average per capita GDP in 1978 ranked 2nd place in the world, only 2/3 that of India.

After the founding of the People's Republic of China, until "the First Five-Year Plan" period, Chinese family business as the representative of national industry and commerce had a period of about thirty-five years of peaceful coexistence and competition development with the newly nationalized industries on the impact of the "Theory of Comprehensive Economic Foundations". But it did not last long, after a long period of time, the idea of the "leftist" ideology gradually gained the upper hand, the family business after the restoration of capitalism were often subject to serious attacks. In 1953-1956, China made the socialist transformation to agriculture, handicraft industry and Capitalist industry and commerce. The socialist transformation of capitalist industry and commerce is the key point of three big transformations. The transformation is divided into two steps: The first step is to put capitalism into state capitalism; the second step is to put state capitalism into socialism. China basically completed the private transformation and public-private joint operation by the end of 1956, which symbolizes that China, entered into the socialist primary exploration stage of the pure public ownership system. Later China experienced the "Great Leap Forward"<sup>3</sup>, the "People's communalization" movement<sup>4</sup> and "Cultural Revolution". During this period, the degree of public ownership of production has reached an unprecedented high level, but the development of social productive forces was imprisoned. The question family business facing is not how to develop but whether to survive or not. Most of the family businesses desperate or "lurking underground", and gradually exit the stage of history. After the Third Plenary Session of the Eleventh Central Committee of the CPC in 1978, China established the route of taking economic construction at the center and implementing the open door policy, which allows a variety of economic forms simultaneously to coexist and develop together. The family business like a spring breeze welcomed excellent time of development finally. In the certain sense, the family business that grows up after the open door policy walked a road of "history of turning back". They reborn from the "underground economy", and had gradually

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<sup>3</sup> In May, 1958, the second conference of the Eighth Party Congress formally adopted the total route that "worked up with full zeal, strive to get the upper hand, and build socialism economically ". Although this total route's starting point is change the Chinese economic civilization backward condition as soon as possible. Because of neglecting the objective economic law, it is impossible to quickly change the situation of China 's economic and cultural backwardness. After the total route proposed, the China party started "the Great Leap Forward" movement.

<sup>4</sup> The "People's communalization" movement is a major decision which the Communist Party of China carried out comprehensive building of socialism to explore the road of socialist construction in the late fifties. It contradicts the relations of production forces to adapt to the productive. In the latter part of the co-operative movement, it appeared too anxious and too fierce problem, therefore also appeared eager to transition to communism.

become one of the most active enterprise organization shapes after ten years of rapid development in current China.

### **4.3 Chinese family business during 1978-1992**

In 1978, the Third Plenary Session of the Eleventh Central Committee of the CPC clearly pointed out that the mission of the Communist Party of China in the new period is to build China into a modern strong socialist country, which opened the prelude of open door policy. The country's 14 million individual industrialists and businessmen whom operated with the family as a unit in town have taken the first step in the development of the Chinese family business. A group of individual operators in town and rural specialized households which cannot get into enterprises and public institutions within the system began to seek a way out, and opened a door to become rich in the process of seeking live on.

Chinese's open door policy started from rural reform and the construction of Special Economic Zones (SEZs)<sup>5</sup>. In 1978, eighteen farmers began to implement the "Household-responsibility System"<sup>6</sup> in the Xiaogang village, Fengyang county in the Anhui province. The general implementation of rural Household Responsibility System and the guidance of the policy of "let some people get rich first" made China's private economy began to recover after many years in a slumber state. At this stage, the individual economy is the main focus, although the national policy has more restrictive conditions on individual economy, but it still has its own living space.

In 1978 the actual population of town unemployment reached 19%. A large number of unemployed youth has nothing to do. The government at all levels encourage them to seek a profession themselves, and issued a large number of individual business license, so the individual economy begun to thrive and eventually become a legal ownership system. After the open door policy, the light industrial goods production began to recover and urban, rural trade and bazaar also gradually restored. Therefore, individual household mainly composed by the unemployed youth were mainly engaged in the business trade and service industry during this period.

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<sup>5</sup> The most prominent SEZs in China are Shenzhen, Xiamen, Shantou, and Zhuhai. It is notable that Shenzhen, Shantou, and Zhuhai are all in Guangdong province, and all are on the southern coast of China where sea is very accessible for transportation of goods.

<sup>6</sup> Responsibility system (contract responsibility system or household responsibility system) was a practice in the People's Republic of China, first adopted in agriculture in 1981 and later extended to other sectors of the economy, by which local managers are held responsible for the profits and losses of an enterprise. This system partially supplanted the egalitarian distribution method, whereby the state assumed all profits and losses.

In 1979, the CPC Central Committee and the State Council approved that Guangdong province and Fujian province "special policy and flexible measures" in foreign economic activities, and decided to set up pilot Special Economic Zone in Shenzhen, Zhuhai, Xiamen and Shantou. So Fujian province and Guangdong province become one of the earliest provinces that implemented the open door policy. After 1979, under the condition that state-owned economy plays the dominant position, China took a series of positive measures in the development of a diversified economy form in township and expanded business's right to independence and the improvement in the circulation system of urban and rural played the role of the center city and other aspects. China's private economy began to generate gradually and develop.

During the 12th CPC National Congress in 1982 and subsequently the constitutional amendment adopted by the Fifth Session of the fifth National People's Congress, made the private economy gradually obtained government recognition and support of the law as a useful complement to the socialist public economy. Private enterprise, bigger than the individual business and with wider operating range, began to appear and developed rapidly. The private enterprises spread all over the nation's cities and countryside. In 1986, the wealthy and powerful family businesses whose employees were over eight people had forty thousand households. Private enterprise in Wenzhou city walked in the forefront of the nation (Zhou Lixin, 2005). Many well-known family businesses, such as Sichuan Xiwang Group, Shenzhen Huawei were founded at this stage.

In October 1987, the 13th CPC National Congress reports clearly recognized the legal existence of the private economy and to made party's basic policy to private economy is to encourage, protect, guidance, supervision and management. Followed in April 1988 amendments to the Constitution adopted at the annual session of the National People's Congress in the 11th article of the Constitution: "the State permits the private economy to exist and develop within the context of the legal provisions, the private economy is a complement to the Socialist public economy. The state protects the lawful rights and interests of the private economy, and implements guidance, supervision and management to the private economy". At this point, China's private economy really got into the legitimate stage of development. Later the Provisional Regulations of Private Enterprise, the Provisional Regulations about Private Enterprise's income tax as well as the law about collection of personal income adjustment tax to private enterprise investors and other laws and regulations were introduced to further improve the legal security system of the development of private

family businesses.

In 1988, the Central Committee of the Communist Party of China government formally approved that Hainan Province be upgraded from a district to a Province, and implemented the development policy that was different from the other provinces, that is the so-called the Special Economic Zones (SEZs). It is said that the reason for the establishment of the SEZs is that Deng Xiaoping wants to test the validity and soundness of the theory of Chinese characteristics-socialism on this island, and contest with another island, Taiwan. "Revoking Hainan Administrative Region, and setting up the largest SEZs in Hainan", this messages instantly inspired the enthusiasm and energy accumulated in the past decade of China's open door policy. "Go to Hainan, and do a great work" ignited the passion and dreams of countless young people. Young people in the mainland continue flocking to Hainan, which almost tumbled Heian and Haikou two lonely ports, the climax has been from the fall of 1987 to the summer of 1988. From August 1987 to April 1989, the talents that wrote letters to hunt job or came to Hainan in person are more than 180,000 people. The flow of talent mainly favored graduate in the 1980s, part of a successful career of social elite's pursuit of self-worth. Group of job seekers have a college education accounted for 90% under the age of 35 accounted for 85% of the nearly 7,000 people with advanced intermediate grade talent considered as amazing. This highest concentrated and the most spectacular talent flow in the contemporary Chinese history is called the "hundreds of talents across the strait". But today it seems that the effect of the open door policy in Hainan has not reach it's expected. Hainan's gross domestic product (GDP) accounted for 83% of the average of national in 1988, and it is still 83% in 2007. On January 19 to 23, 1992, the 88-year-old Deng Xiaoping, the chief architect of the open door policy, went to Shenzhen Special Economic Zone inspected and delivered an important speech to promote a new round of climax about open door policy in China. In the history of China's reform and opening up, the importance of Deng Xiaoping's southern tour speech cannot be overemphasized. At that time differences within mainland China's internal reform and opening up, a lot of value needed restructuring, Deng Xiaoping's southern tour has promoted an ideological emancipation movement, and also morale was encouraged. Deng Xiaoping stressed that reform and opening up need courage to test or experiment, he said there is no way in the with no risk of the spirit there cannot be success. He stressed that the open door policy cannot start to walk step, and afraid to take adventure, the reason is the capitalism things were too many, and take the road of capitalism. It is capitalism or the socialism, the standard of judgment should mainly depend on whether it is conducive to the

development of the productive forces of the socialist society, whether it helps to enhance the comprehensive national strength of the socialist countries, whether it helps to improve people's living standard.

The starting time of family economic activities is also the beginning period that transformed China into a market economy system. The degree of market development was however low, the market system was also not perfect, and was basically disorderly. The farmers who just left the land lack proper knowledge and experience in business management, but the commodity money relations had penetrated into all fields of social life. The leaders of some local authorities wanted to eagerly get rid of poverty to become rich, and were eager for quick success and immediate benefit. So they attached great importance to development and took lightly of management, attached great importance to quantity and looked down upon quality. In the enterprise itself, technology was low, extensive management lack of restrictions. In this way, while rapid development was inevitable in the family businesses, while providing the community with marketable products of high quality and suitable for sale, at the same time they also produced fake and inferior products. Since 1983, the business sector of central and the local departments for industry and commerce has launched an investigation and attacked fake and inferior products. What affects the biggest is the attacking and cleaning up of fake and inferior electrical products in Liushi town Wenzhou city. After it has been reorganized, some family businesses closed down because of faulty operation and poor management, while these who have advanced technical equipment for their production and operation benefit. But since 1989, the state began to rectify the economic order; family business's development met some problems, such as funds shortage, raw material tension and triangular debts. At the same time, influenced by political turmoil in 1989, the Chinese family businesses appeared to have a lot of difficulties and twists and turns, once bottomed, and even appears stagnation and backs up. Beginning from 1989, private enterprise appeared first down and after the rise it developed slowly. The number of national registered private enterprise is 90,630 households at the end of 1989, 14% lower than that of 1988 and by June 1990, the number dropped to 88,000 households, and rose to 98,000 households at the end of the year. At the end of 1991, the number of private enterprise was 108,000 households in private enterprises, 241,400 investors, employs 1.5986 million workers; the total amount of registered capital being 12,316,890,000 billion Yuan<sup>7</sup>.

In the 1979 -1992 period of Chinese family enterprises, family business in China are

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<sup>7</sup> Source: State Administration for Industry and Commerce, Industry and commerce administration statistics the assembler (1995-2001).

mostly individual entrepreneurial firms of family workshop production, the size and scale are usually small in the form of "the window shops". "Family factories" are in the majority who produced mainly primary products, and their mode of operation is simple, mostly labor-intensive factories. The development of individual enterprise was rapid, employing some 150,000 in 1978 to 24.68 million in 1992. After 1987, the private enterprise is also made up of individual enterprises in the form of individual large enterprises were formed spontaneously and sprouted and developed. In this period, ownership and management completely belong to a family or a "public ownership family management" form. That is to say, in the collective ownership or the joint-stock cooperative system enterprise, leaders or operators mostly has strong family background, perhaps to prevent the risk capitalism last name social struggle, family businesses all looks for a "red hats" to wear as the protective umbrella. In view of this part of government power penetrated into family business. On the one hand, family businesses have the soil to grow. On the other hand, the fuzzy property rights in family businesses dominated in the use of social capital. At this time, in the family business had two forms of groups who are united together; the owner is operator, employees are relatives or friends, the most typical management mode is family management but no form of corporate system organization. The business owners mostly marginalized people, they could not get access into the mainstream of society at the community levels, including correctional detention release officers, the return of city unemployed educated youth, individual operator, farmer, urban unemployed people was expelled from state-owned enterprises or dismiss. Their education was limited and education level is not high, but generally their thought is agile, have a certain critical decision making skills and a strong entrepreneurial impulse, who dares to rush with their unique human capital. These people often starts from individual operator, using their own technology, information advantage, with extreme courage of greenwood heroes, began to travel in business affairs. China formed huge seller's market in the era of planned economy, leather shoes in Wenzhou Zhejiang, the market of household appliances, Guangdong's clothing market and other professional market appeared and accumulated, the nouveau riches were born constantly; many family businesses had completed their own primitive accumulation in this stage. From 1987 to 1988, China implemented price double-track system, the price difference total amounted to tens of billions Yuan, the majority of price differences fell into these family business owners and in the minority government official hands, provided the capital for part of family business to develop and grew strong. Although the later economical reorganization slowed down the pace of family business's development, but Chinese family business obtained swift and violent

development compared to the preliminary stage of open door policy.

In General, the 1978-1992 periods is an important period in the development of family enterprises in China. In this period, although the internal and external environments were still mature, and unable to generate enough influence, it laid the foundation of the family business and continues to mature and develop.

#### **4.4 Chinese family business after 1992**

After the reforms and opening up policies, it along with the widespread promotion of the Household-responsibility System and a gradual growth of the market economy. In view of that capital, technology, factors of production such as labor force and land and other production elements entered the market freely and unrestricted flow. The typical form of family businesses which were established on the basis of employment developed, and their quantity increased, the scale expands unceasingly, experienced a process of gradually development. The emerging of private economy is an important sign that the family business is developing. According to the 6th private enterprise's annual report of the Private Enterprise Research Center of the Chinese Academy of Social Sciences, by the end of 2004, the number of private enterprise with national registration was 3.651 million households, with a registered capital of 4.7936 trillion Yuan, total employees employed was 50.17 million people, the output value reached 2.305 trillion Yuan. But according to the survey jointly organized by the Chinese Academy of Social Sciences, the Sociological Research Institute and the Office of National Federation in 2002, a sample survey they made in 1947 small and medium-sized private enterprises on the Chinese mainland's 250 cities in 21 provinces, municipalities and autonomous regions, showed that close 80% enterprises were family business or the pan-family business, the major part of enterprises implemented the family system management.

After Deng Xiaoping's "Southern Tour Speech" in the spring 1992, from "the useful supplement of the Socialist Public Economy" to "the important components of socialist market economy", the status and role of the non-public economy was further clarified. The 14th congress of the communist party of China held in 1992 not only set the objectives of the reform of the socialist market economic system, but also made the private economy started to gain equal status with the public system economy. The launch of the decisions of a number of issues about establishment of a socialist market economic system by the CPC Central



Committee in 1993, made the income of private entrepreneurs obtained legal protection. At this stage, family business, as the main private enterprises was showing a more rapid development, compared with 1991. China's family business totally increased 853,000 in six years that is from 1992 to 1997 six years, the jobholders increased 1,654 million, and the registered capital increased 501.69 billion Yuan. At the end of 1997, the nationally registered family businesses were 961,000, the employing 13,493 people, with a registered capital of 514.01 billion Yuan (Yu Huifen, 2006).

With the passing of the Corporation Law of 1993, Township Enterprises Law of 1996, and the Sole Proprietorship Enterprise Law in 1997, tax reform unified the enterprise income tax in 1994, and canceled the tax discrimination against private enterprises. Family business obtained a greater degree of improvement in the external environment and internal institution during this period. In this stage, the window shops and the small workshop continue to flourish; production-oriented, export-oriented, science and technology enterprise is more common, such as the small and medium-sized enterprises clusters in Zhejiang province. The medium-scale enterprise had widely existed, and emerged a lot of large enterprises and enterprise groups with assets over ten million Yuan or over one hundred million Yuan, such as Xiwang Group, Zhengtai Group, Delixi Group and other family businesses. These strong family businesses began to strive for market share in order to build huge enterprises. In order to reduce the risk and obtain more profits, they all carry on the diversification development. The birth of the new financial institutions and the reform on the commercialization of bank made family businesses began to move from the past practice where they only rely on their own funds to develop. Dongfang Group was listed in 1994, and this became the prelude for private family business buying shares from the market to finance businesses. Family businesses at the time emphasized quality and brand, and they began to pay attention to building brand and advertising. They start to step in the high-tech arena and this became one of the most important strength. The technical innovation was greatly valued and becomes a new method that private family businesses fighting for market share, like Lenovo and other large number of scientific and technological enterprises used. In the mid-1990s after the restructuring of state-owned enterprise and township enterprise, a batch of state-owned small and medium-sized enterprise became private enterprise. All or most of the ownership and control of township collective enterprise transferred from the local government to family enterprises, which created a large number of new types of family businesses. The loose and stability policy also makes many enterprises removed their "Red Hats" and clear property

rights.

The entrepreneurs of this period were mostly state agency cadres, professional and technical personnel who once were the main force who run businesses and this led to the number of farmers relatively becoming less. These kind of private owners were highly educated, with high cultural quality which they have accumulated in their previous work. They also have management experience and the technical ability which makes them have more advantage in the purchase and sales network. Then in the 1990s, in the speculation business of raw material, many people earned the market price difference through buying low price goods and selling at a high price. Then the speculation business in real estate, stocks and others, made huge profits which led to the sudden appearance of wealthy group. Of course some far-seeing entrepreneurs started internal reform in their family business, such as the Nan Cunhui of Zhengtai Group began his family property adjustment and reform in 1996, and gradually dilute the Nan's family equity. Yang Jiqang of Lanzhou Yellow River Group brought in professional managers and planned to list the company. The entrepreneurs of this era began to pursue political status while their economic status enhanced. Some entrepreneurs entered into the National People's Congress, the Political Consultative Conference or the Federation of Industry and Commerce. Some joined the glorious cause that support Poverty Alleviation or became visible in the charity activities. They all hoped to obtain a sense of refuge and sense of security in politics. But since 1996, some family business started blind expansion and diversification with management development imbalances. Fei Long, Ju Ren, San Zhu, the Sun God have been become the meteors of the period.

In general, this period can be called naive market stage. On the one hand, the existence of shortage of good in the economy makes the market demand exuberant, the sellers were however not worried. On the other hand, the consumer groups were not mature at the time. Majority of the business owners who become rich first during this period were the beneficiaries of market environment. This also caused their attention on the relationship and the neglect of human capital. The human resources management was very random and the paternalism in family management was very popular. But the family business organizational structure had been greatly improved in form under the standard of company law.

In 1997, The 15th congress of the Communist Party of China explicitly pointed out that, the non-public enterprises is an important component to China's socialist market economy, as well as with public ownership system as the main body while diverse forms of ownership of economic development as a basic economic system for the primary stage of socialism in

China. In 1999, the first conferences of the ninth National People's Congress passed constitutional amendment, which confirmed the status and functions of the individual and private economy as the important component of socialist market economy in the constitution. Thus Chinese private family economy enters the new rapid development track. In 1998, the number of private enterprise exceeded one million reaching more than 1.2 million households (Chen & Ying, 2003). Company Law, Partnership Enterprise Law, and Individual Sole Proprietorship Enterprise Law were three laws that were adopted and marked China's legislation starting point from individual ownership which gradually turned to investment mode and form of responsibility. In law, private economy basically won the equal status to the public system economy. In 2000 the country stop the collection of enterprise income tax to the individual sole-source investment enterprise and partnership enterprise, only the personal income tax which enterprise investor obtained in the process of production and operation were collected. This avoided the previous double taxation to the private family enterprise and encouraged the development of private family businesses. In 2001, the "Approval System" opened the door of Chinese family business security market listed directly, the second plate of Hong Kong stock market also open to the mainland private enterprises, which not only broaden the financing channels but also make them get more abundant capital support and more effective supervision. More and more family business listed for financing one after the other. In the same year China joined the WTO successfully, which brings the wide international market to the Chinese family business. Meanwhile it also brings the impact and the challenge of globalization, which forced family business to strengthen the investment on technical management innovation, and improve the product and service quality. In the intellectual property rights, family business also faced an unprecedented challenge. Building their own core competitiveness becomes many enterprise's urgent matters. The 16th Communist Party of China congress held in 2002 further put forward the policy of "must be unswervingly encourage, support and guide the development of non-public economic". In 2003, the third session of the 16th congress of the CPC Central Committee passed the policy of "the decisions on some issues about the improvement of the socialist market economic system", which put forward relaxing restrictions on the private economy market access, allowing the non-public capital into the laws and regulations for the infrastructure, public utilities industries and fields. And the private economy enjoys the equal treatment like other enterprises in investment, financing, taxation, land using, foreign trade and other aspects.

In 2004, the National People's Congress conference made amendments to the

constitution that stipulates: "that citizens' private legal property acquisition is inviolable", and further enhance the investment confidence and entrepreneurial energy. The state council's release in 2005 "about encouraging support and guide the development of private individual and other non-public sectors of the economy developed certain opinions", relax market access in non-public economy, strengthening the fiscal and financial support in seven aspects put forward the policy of article 36, further optimize the private family economic development environment. In October of the same year a new company law was enacted, and this did not only reduce the threshold of the establishment of the company, but also put in place a perfect director system, strengthen the restriction of the chairman of the board, to strengthen the protection of the interests of small and medium shareholders. A special chapter was devoted to a perfect governance structure of listed companies, so that more conducive to promoting Chinese family enterprise's healthy development.

During this period the external environment for family businesses had opportunities and challenges. The country continued to relax policy limit and increased support at the same time, there was transformation in the domestic market to the buyer, market gradually standardized. On the international market, competition of multinational group also continued to promote innovation of Chinese family business. At this stage period family enterprise began to give up some industries, improving their core competitive areas, and they no longer blindly pursue large scale competition ability. Diversification strategy is also becoming rational and they paid attention to the marketing research. More family enterprise in this period introduced professional managers, although due to some reasons, almost none succeeded, but as the language of the Lu Chuqi of Wan He Group, the introduction of professional managers even though finally parted ways, at least they brought in new ways of thinking and concepts and adjust the marketing team. Shenzhen Vanke was a real success in the professional manager, and the Yellow River Group and Skyworth Group of brought great harm to their businesses with the introduction of professional managers. But in most family enterprises the introduction of external outstanding attempted on human capital and innovation proved positive. More and more family enterprise in this period got listed not only in Shanghai and Shenzhen stock market, but also in Hong Kong second plate, New York stock exchange and the NASDAQ. These strong enterprises started their international journey and the new small family enterprise established in Zhejiang and Guangdong small and medium-sized family enterprise cluster has already begun to take shape. The family businesses in these two provinces overall scale of development was the country's most powerful economic

development. This period, more family enterprise began to convert to Limited Liability Company and Joint Stock Company organization form, which was more conducive with a perfect governance structure and to reduce the risk of development and expansion. All kinds of forms and scale of family business coexisted in this stage, ups and downs, and this made the economy vibrant.

This era of business owners some have long-term entrepreneurial experience, have accumulated a wealth of management experience in business ownership, and a lot of knowledge to venture these types of businesses. The success in the use of technology transformed into commercial profit, and more increasingly more returnee elite and MBA and doctor degree holders join entrepreneurial team. Of course there is because of state-owned enterprise restructuring and laid-off workers and the peasant farmers who lost land peasants as well as the influx of university graduates. During this period in which market mechanism constantly improved, just a largest enterprise's business owners began to pay attention to the enterprise's internal governance structure reform as well as the heir to the enterprise culture, MaoLiXiang and MaoZhongQun, father and son, is one of the outstanding person, and part from that too served as chairman and general manager Yugaya and none of the other senior management personnel are family members and relatives, they were all external senior talents, and the staff were 40% from the field. Guo Fansheng found the breakthrough point of reform in the enterprise ownership, control and usufruct. The Chengtai NaCunHui gradually had its individual stock diluted to 20%, and implementation of elements to become a shareholder, make its elite have more power for enterprise struggle. More and more enterprise group started in equity, management reform, to a certain extent socialization attempt, trying to make the enterprise to adapt to the changing market competition environment. On the successor issue, the Zhengtai Group NaCunHui advocate the setting up the black sheep of his family funds, to strengthen the business owners Children's ability to become entrepreneurs. Lifan, Yin Mingshan and Ordos Wang Linxiang, unwilling to bring their children into the family enterprise challenged it, is the traditional "child in his father's footsteps", is to follow the West's right to socialization, which is to be put in front of Chinese family business owners choose.

Visibly, after 20 years of development, the family business had a constant development and expansion, although as environmental constant change and its own internal evolution, development question to emerge unceasingly, but our family enterprise has been continuously moving forward into perfection. Family businesses have become an important form of business organization, becoming an integral part of China's national economy.



## **Chapter 5: Analysis on the role of social capital in development of Chengxin Group**

Against the background of the development history of Chinese family business as described in the previous chapter, this chapter firstly introduced the Hu's family tree in detail and determine the family business nature of the Chengxin Group. After that a review of the Chengxin Group's historical evolution, including the evolution and development of the family business is then discussed. Then, a detailed analysis on the key role of social capital in the process of Chengxin Group's development will be looked at. Finally, based on the impact of social capital, a SWOT analysis, BCG matrix analysis and Ansoff matrix analysis is applied to Chengxin Group's expansion and diversification.

### **5.1 The Hu's family structure and enterprise**

#### **5.1.1 Hu's family structure**

Chengxin Group is the selected case study for this thesis, there is therefore the need to introduce two families which related to Hu Jianyong the owner of Chengxin Group. One is his patrilineal family and the other is the matrilineal family.

##### **5.1.1.1 Patrilineal family**

The ownership of Chengxin Group of companies is vested in the Hu family. The ancestors of the Hu family lived in Wu Tong (High County, Jiangxi Province) for generations. Around the later part of the Ming Dynasty (16th Century), a farmer named Hu Yunqin left Jiangxi native land with his family members and came to settle in Liuyang, Hunan Province. Hu Yunqin, who born in 1569, was known as the ancestor of “Xiling Hu” and respected by the descendants that lived in Liuyang, Hunan Province. The history of this Hu patriarchal clan is therefore more than 400 years, and Hu Jianyong, the present owner of the Chengxin Group and the current researcher, which is the case study for this thesis, is the 14th generation grandson of Hu Yunqin.

According to local records, after they settled in Liuyang, the descendants of this Hu family started getting successful and the ancestral status of Hu Yunqin was identified. At the

end of the Qing Dynasty, Hu Yunqin was appointed as the imperial guards and governor of Hubei province. The great impact that Hu made was obvious at Liuyang. The descendants of Hu Yunqin flourished in the Qing Dynasty. Some families lives at the ancestral home generation by generation, but one moved to Xiaohe at the eastern of Liuyang and some people moved to Wenjia town, Shanzao town or Rock town. The ancestors of Hu Jianyong lived for generations in the Xiling.

The great grandfather of the writer' s great grandfather was named Hu Mingzhong (1840-1885). Hu Mingzhong has a little son named Hu Chenghan who is the father of the writer' s great grandfather. Unfortunately Hu Chenghan was born in 1858 and died in 1896, only 38 years old. At the time of his death his eldest son, Hu Zulun (Hu Jianyong great-grandfather's brother) was only 14 years old, and his sister was 12 years old sister and their little brother Hu Zuhuai (the writer' s great-grandfather) was 8 years old. Therefore, Hu Zulun was brought up by his uncle Hu Chengkan, Hu Zuhuai and his sister were also brought up by their uncle Hu Chengbiao.

The Hu family has a great tradition of giving great importance to enlightenment and education to boys and giving financial assistance to poor families. So Hu Zuhuai and his brother Hu Zulun luckily got the chance to go to school. The writer's great-grandfather Hu Zuhuai was very intelligent, astute and exceptional. When he grew up, he went to Chongqing and find a job in a bank. After several efforts, he became a big merchant. Hu Zuhuai has two sons one named Hu Yaogui and the other is called Hu Yaoyin (the grandfather of the author). On the other hand, Hu Zulun , the brother of Hu Zuhuai, has been farming at home. Hu Zulun has ten children, but only two sons Hu Yaobang, Hu Yaofu and three daughters (the names are unknown) were survived because poor medical facilities then and the fact that their families were poverty-stricken. The researcher' s uncle Hu Yaobang (1915-1989), was one of the important leaders of the communist party of China, the communist youth league of China and the People's Republic of China. From 1981 to 1982, he was the chairman of the central committee and between 1982 and 1987; he was the general secretary of the central committee.

In 1929, an Autumn Harvest uprising affected the rural areas of Liuyang, and Hu family had many of their relatives joining the revolution. After the liberation, Hu Jianyong' s grandfather Hu Yaolin followed his brother Hu Yaobang came to Bao Zhenzhai, Sichuan Province. After that, Hu Yaobang got a job in Beijing, but Hu Yaolin and family stayed in



Bao Zhenzhai. Hu Yaolin had only one son named Hu Yongquan who is the father of Hu Jianyong, Hu Yongquan and Hu Jianyong's mother Yang Jinxiu have three children after marriage. They are Hu Jianyong, the younger brother Hu Jiahua and younger sister Hu Jianmin.

The patrilineal family tree is shown in figure 5-1.

#### 5.1.1.2 Maternal family

Here, a brief introduction of the family of the researcher's mother, Yang Jinxiu, is given. Her hometown is Chongqing. Her father Yang Shunwen is the younger brother of Yang Shangkun. Her mother Zhang Aiyong is the younger sister of Zhang Aiping. Yang Shangkun (1907-1998), was one of the important leaders of the communist party of China and the People's Republic of China. From 1988 to 1993, he was the President of the People's Republic of China. Zhang Aiping (1910-2003), was a senior general of the PLA. From 1980 to 1987, he was the vice premier of the state. From 1980 to 1987, he was the minister of national defence.

The maternal family tree is shown in figure 5-1. Through a series of in-depth interviews and secondary data collection, we distinguished clearly the family relations, and get both patrilineal family tree and maternal family tree as shown in figure 5-1.

#### 5.1.2 Hu's family business

In chapter two, the thesis espouses a detailed discussion on the definition of family business. Chua, Chrisman and Sharma (1999) argue that a family firm is "a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families. Ibrahim and Ellis (2004) think the family business need to meet the following conditions: at least fifty-one (51) percent of the business is owned by a single family; at least two family members are involved in the management or operational activities in the business and the transfer of leadership to younger generation family members is anticipated. By the review of the definition of family enterprises in existing research, we summarized that family business should have several key elements, including: ownership, governance and management, heritage, kinship, vision, philosophy and culture.

From documents made available to the writer and interviews conducted with my younger brother Hu Jiahua and my mother, it was realised that as a big businessman and banker, the

researcher' s great-grandfather did the original accumulation of capital and social capital. When it came it the turn of the writer' s grandfather, the family business of Hu did not flourish because of the influence of the social environment, but the accumulation and expansion of social capital did not stopped but went on.

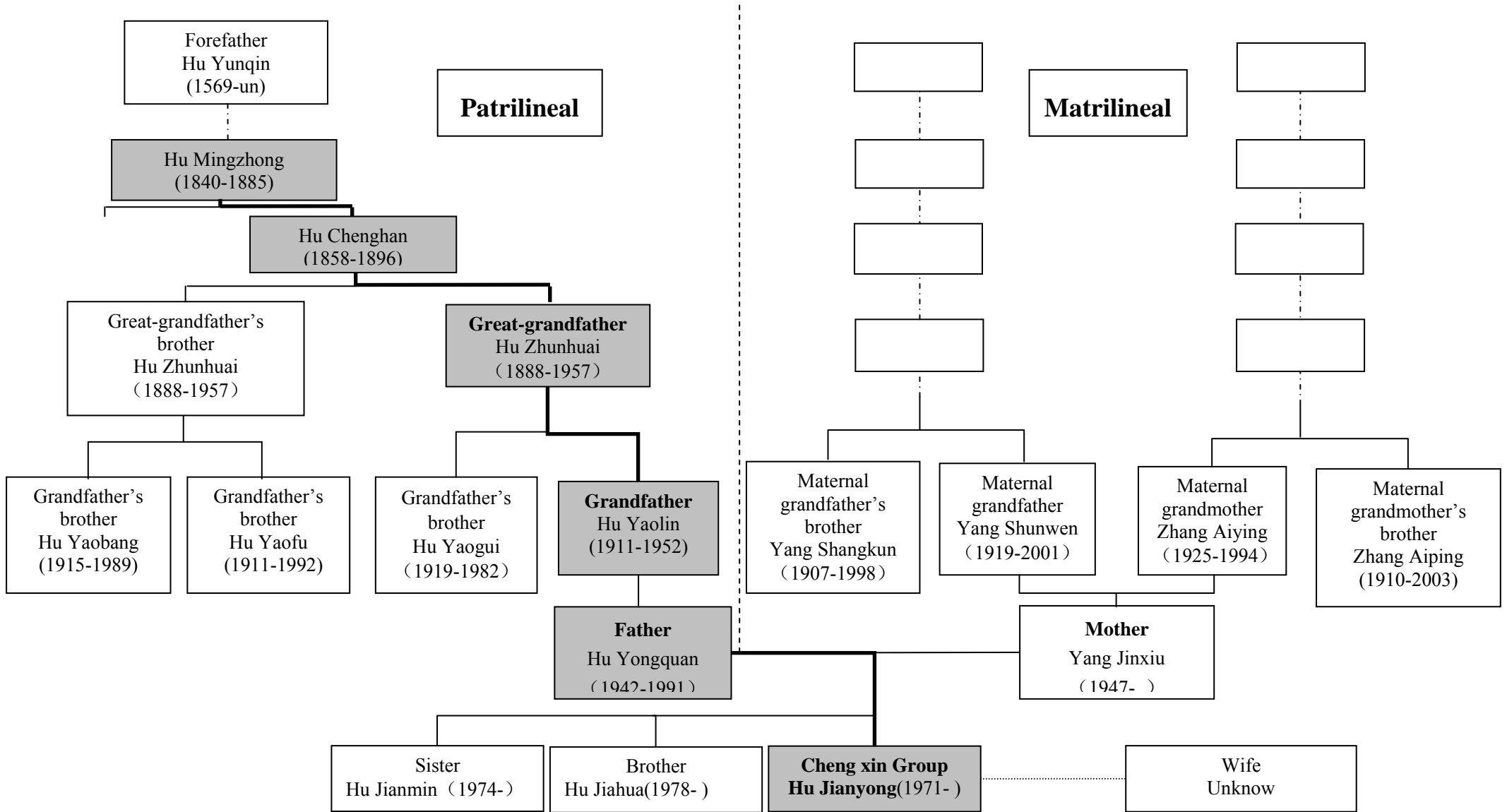


Figure 5- 1Hu's family tree

Source: reorganized by author

Based on the capital and social capital that the family continued to accumulate, the researcher’s parents founded the Chengxin restaurant and Chengxin Construction Co., Ltd. Later, Chengxin Group was established by the integration and development of Hu Jianyong. Now, the ownership of Chengxin Group is controlled by this researcher, my brother, Hu Jiahua and their mother. On the management of Chengxin Group, the author is the chairman, his brother Hu Jiahua the vice president and his classmate Wang Xiaobin served as the president. Wang Xiaobin and I are classmates when we were studying in Tsinghua University for the executive master of business administration degree. The family business tree is shown in figure 5-2.

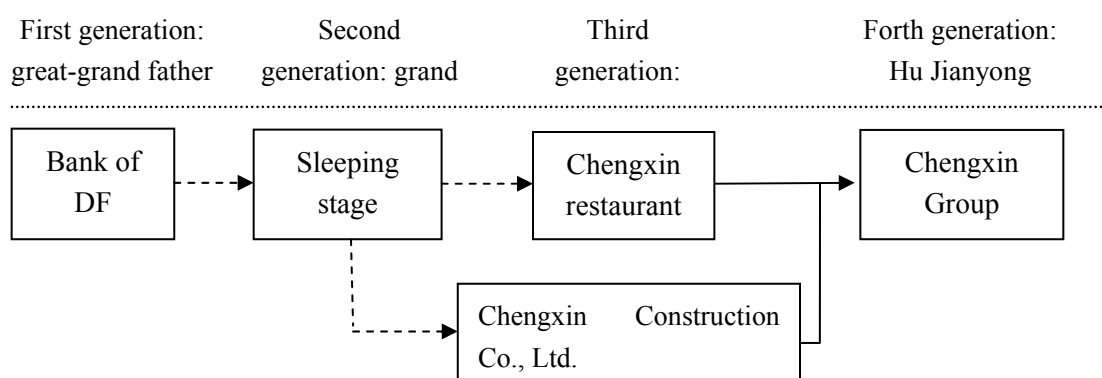


Figure 5- 2 Family business tree

Source: reorganized by author

By giving a closer look at Chengxin Group, we saw the family business elements in the Group, such as indicated on Table 5-1.

Table 5- 1The family business elements in the Chengxin Group

Chengxin Group					
Ownership	Management	Succession	Kinship	Vision	Philosophy/Culture
The ownership is 100% controlled by the Hu family	The senior decision-makers are almost the members of Hu family	The ownership and management of the enterprise is succeed in Hu family	The author and his brother are the senior managers of the enterprise and kinship is the link between the business decision makers.	Sustainable development of the family and the business	The integrity

Source: reorganized by author

From table 5-1, we it can be realised that Chengxin Group was founded by the Hu family, not only has the involvement of blood relationship, family control in the enterprise ownership and management, succession, but also formed the corporate vision and culture with the family characteristics

Therefore, Chengxin Group, the case study of this thesis, is a typical family business with oriental features, and it has high research value.

## **5.2 Evolution of Chengxin Group**

In section 5.1.2, it was established that Chengxin Investment Control Group is a family business. It has gone through four generational efforts to form, develop and grow gradually. Now Chengxin Group has become a diversified large enterprise group which started as a single small firm. It combined its commercial spirit and social capital among generations and the succession of corporate culture. The next sections will review the evolutionary history of Chengxin Group, which includes the efforts made by our great-grandfather and grandfather, the efforts of our parents, and the succession and extension I made to the business. In writing this section I spoke with my mother and read several documents that were available to my family".

### **5.2.1 The first generation: preliminary stage**

#### **5.2.1.1 Family business of this generation**

The main actor of this generation is the writer's great-grandfather Hu Zuhuai. Chengxin Group is a typical family business which can be traced back to my great-grandfather. My great-grandfather, Hu Zuhuai, was a great merchant before 1949. He engaged in banking business in Chongqing, and the name of the bank was DF bank (as shown in Figure 5-3). During the late Qing Dynasty, business in Chongqing was prosperous, many merchants gathered in Chongqing, and the bank business sprang up. The forms that most of early banks took were personal sole proprietorship or partnership. The great-grandfather Hu Zuhuai is the owner and manager of DF bank with the main business of DF bank being conversion between "Copper used as currency"<sup>8</sup> and "Silver used as currency"<sup>9</sup>, deposits, loans, issue credit bills

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<sup>8</sup> The copper coin forged in the Ming dynasty and Qing dynasty are generally called "Copper used as currency". After 1916, this form of currency is no longer circulation.

<sup>9</sup> "Silver used as currency" is the main form of currency which forged by silver in old age. It was popular in the Ming and Qing dynasties. After 1933, it stop to be used. The price ratio between "Copper used as currency" and

and commercial exchange among regions.

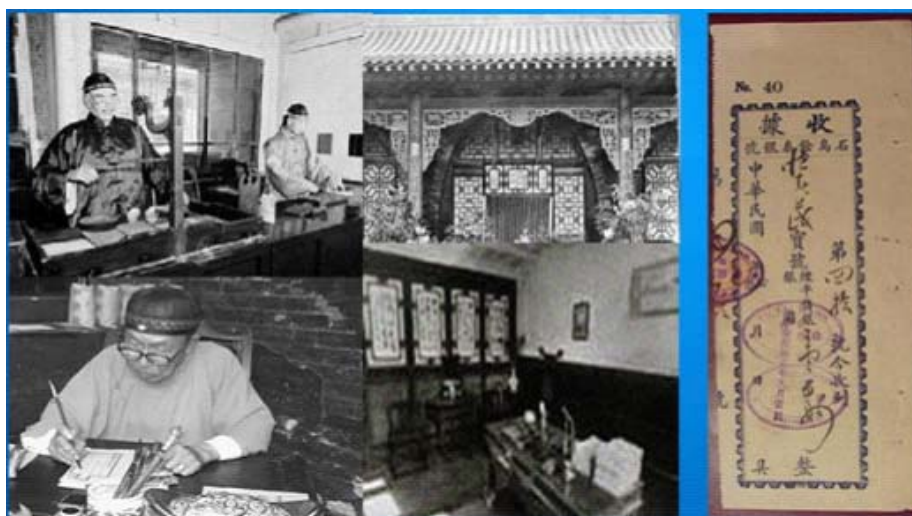


Figure 5- 3 My great-grandfather Hu Zuhuai and DF Bank

During the liberation war (from August 1945 to June 1950), the Kuomintang<sup>10</sup> (KMT) warlords captured and suppressed the Central Revolutionary Base and other Soviet Areas. Meanwhile, they intensified the blockade in the economy attempting to eradicate the growing Red Regime<sup>11</sup>. In order to crush Kuomintang's plot and develop the local economy, the Communist Party of China leadership issued other red bills besides the currency in the revolutionary base, including public bond, food bill and Stock (Luo Hong, 1998). But due to the restrained situation, this kind of currency did not have the means of circulation besides the revolutionary base. My great-grandfather played an important role in the process of Chinese revolution liberation, which was responsible for the circulation and settlement of red bill between liberated area and non-liberated area. In view of the fact that the great-grandfather was engaged in the banking business in Chongqing, the Communist Party of China appointed great-grandfather Hu Zuhuai as the financial officer of the Administrative Office of East Sichuan. So great-grandfather was responsible for the circulation and settlement of the currency between the liberated areas and non-liberated areas.

#### 5.2.1.2 Accumulation and succession of social capital

The main business of DF bank at the time was the commercial exchanges among regions. This commercial exchange business generated the gathered the building of human relations. While the most important thing in commerce is human relations, so the relationship between DF bank and commerce was relatively large. These human relations were the rudiments of

“Silver used as currency” is always changed.

<sup>10</sup> Kuomintang(KMT) is one China political party created by Sun Zhongshan. It is the first bourgeois political party in China. In 1949 KMT losted in the liberation war, retreated into Taiwan from China continent.

<sup>11</sup> The Red Regime refers to the early Communist Party of China(CPC).

social capital, and lay the social capital's foundation for our family to carry out the catering and entertainment businesses.

DF bank has not only left some wealth to Hu's future generations, but also provide safeguard for them to establish businesses later. Moreover, by engaging in the banking business, the great-grandfather accumulated a lot of social capital which can provide a platform for Hu's descendants to start a business in dealing with banks. Meanwhile, the business philosophy and spirit of ancestors also affected the Hu's family, this business philosophy and spirit was an invisible genes stored in the Hu's family from generation to generation.

## **5.2.2 The second generation: sleeping stage**

### **5.2.2.1 Family business of this generation**

After the People's Republic of China was established in 1949, because of the turbulence of war and the change of incumbent party, the society was very unstable. At that time, some large and good industrial enterprises were completely gone to Taiwan or Southeast Asia, including the banks. At that time, China implemented planned economy system in the resources allocation and the state-ownership system that "first the people's commune scale is big, second public degree is high" on the production material ownership and urban collective system of ownership and rural people's commune society team system, which means that individuals cannot have their private property, all fruits of labour will be divided equally. During this period, the degree of public ownership of production has reached an unprecedented high level, but the development of social productive forces was fettered. Most of the family business are close to a hopeless situation, and gradually exited the stage of history.

In 1953, the Chinese government implemented socialist transformation of agriculture, handicrafts and capitalist industry and commerce. The socialist transformation for capitalism had two parts: National Capitalism Transformation and Bureaucratic Capitalism Transformation. To the National Capitalism Transformation, the Chinese government adopted the policy of redemption. While the state applied the policy of confiscation to the bureaucratic capitalism and the majority of capital originally belonging to the bureaucrat was confiscated. As a form of national capitalism, DF bank could not continue to exist any longer. In response to the government's call, my great-grandfather took the first lead to implement the

redemption policy for national capitalism.

The main actor of this generation is the author’ s grandfather Hu Yaolin. Hu Yaolin was my grandfather, and Hu Yaolin's brother was Hu Yaobang. At that time, Hu Yaobang was appointed as the secretary of the Committee of Administrative officer of North Sichuan and the political commissar of North Sichuan Military Area. After 1949, when China had just been liberated, the struggle within the Chinese Communist Party was very serious, and the society was complex and unstable. Taking into consideration various factors comprehensively, Hu Yaobang led Hu’ s family to move into Bao Zhenzhai (as shown in Figure 5-4). Bao Zhenzhai is located in Fang Jiagou village, Nonglin Township, Wu Sheng County, Guang'an City, Sichuan Province. According to “Wusheng County Annals”, Bao Zhenzhai was built in the autumn of 1911AD, covers an area of 15,000 square meters. It combined military defence and living in one fully enclosed residential buildings. Later, in 1952, Hu Yaobang was recalled back to Beijing as the secretary of the New Democratic Youth League of China Central Committee Secretariat, while a lot of people of Hu’ s family as well as other revolutionary descendants were left in Bao Zhenzhai, including Hu’ s father Hu Yongquan.

Meanwhile, my maternal family was also growing. In an interview with my mother, she indicated that my maternal grandfather Yang Shunwen was an old Red Army, and he even participated in the Anti-Japanese War, and later took part in the Liberation of Liangshan<sup>12</sup> movement. He was also is an officer of the Korean War. During the peaceful period, my maternal grandfather Yang Shunwen had been the manager of a state-owned enterprise as well as local leading cadres. Afterward he was demoted to go to the countryside because of a violation on food distribution during some drought year.



Figure 5- 4 Bao Zhenzhai----The place where Hu’ s Grandfather lived

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<sup>12</sup> Full name of the Liangshan Yi Autonomous Prefecture, China's largest Yi neighborhoods located in Sichuan Province, southwestern Sichuan and Yunnan at the junction, and covers an area of 6 million square kilometers and a total population of 473.04 million, more than 10 native ethnic Han, Yi, Tibetan, Mongolian, Naxi territory.



### 5.2.2.2 Accumulation and succession of social capital

During this period, Hu's family business was in a sleeping state. However, social capitals that succeed from great-grandfather still existed in Hu's family in the form of "existing capacity" temporarily, waiting to be activated by the next generation.

Bao Zhenzhai is like a small society, there were restaurants and stages where one can act in an opera or have party together. Hu's family and other revolutionary descendants often meet there for entertainment and social interaction. This is not only a platform that Hu's family maintain and develop social capital, but also the foundation that Hu's family later engaged for their catering and entertainment industry.

Although my maternal grandfather Yang Shunwen was demoted, he had already built very important social network for the next generation during the assignment, including links with the government, the bank, and the state-owned enterprises. The family obtained valuable information and scarce resources through these relations. The growth of the enterprise was also the process of a fusion between the enterprise and social capital. To some extent, the expansion and diversification of Chengxin Group is inseparable with the maternal grandfather's accumulation of social capital.

## 5.2.3 The third generation: Revival Stage

### 5.2.3.1 Family business of this generation

China's open door policy started in 1978, and China began a transfer from a planned economic system to a market economic system. Chinese economic reforms introducing capitalist market principles began in 1978 and were carried out in two stages. The first stage, in the late 1970s and early 1980s, involved the de-collectivization of agriculture, the opening up of the country to foreign investment, and the giving of permission for entrepreneurs to start up businesses. However, most industries remained state-owned. The second stage of reform, in the late 1980s and early 1990s, involved the privatization and contracting out of much state-owned industry and the lifting of price controls, protectionist policies, and regulations. According to data from the China Statistical Yearbook (1979), the actual population of urban unemployment reached 19% in 1978. A large number of unemployed youth had nothing to do. This part of the unemployed young people cannot find work in state-owned enterprises. The government at all levels have to encourage them to seek a profession themselves, and issued a large number of individual business license. The Chinese Government Work Report of 1983 pointed out that from 1979 to 1983 these four years the individual workers in the towns

increased from 150,000 to 1.47 million, the individual household was growing at a rapid rate and the most common kind of individual household was the "Profiteer"<sup>13</sup>. "Profiteer" mainly carries on business by buying cheaper and selling at a very high price in order to seek money by using the commodity price difference. In brief, they sell superior product of Place A to Place B, sell Place B's superior product to Place A or C again. This behaviour was also called "Speculation"<sup>14</sup>. The local governments at all levels did not approve of this behaviour and therefore it was cracked down by the government departments from 1987. In 1979, the criminal law stipulated that, "speculation was a crime". This charge was abolished afterward in 1997. On January 15, 2008, "The Speculation Administrative Sanction Temporary Regulation" was cancelled, which symbolized the official end to speculative behaviours from the scene.

The speculation once was a kind of large crime, now it has faded out the historical arena. The main actors of this generation were my parents, Hu Yongquan and Yang Jinxiu. They were also the pioneer and innovative people during the open door policy. They seized the opportunity of the open door policy and set up their own business by using the social capital that was accumulated by my great-grandfather, Hu Zuhuai and my maternal grandfather, Yang Shunwen. My parent's idea to run the enterprise also was in response to the call of national infrastructure construction initially. The state finance changed for the better gradually, so the common people wanted to become rich, but there were not many skilled people at that time. Therefore, a lot of companies did not dare to take the government projects. Since many relatives of Hu's family were also serving in the government, the government was assured when the projects were done by the researcher's parents because they were trusted. In the beginning of the open door policy, the government of China persuaded the enterprises to take loans, but a lot of people were afraid to take loans because they were worried of paying the loan and the huge interest attached to it. Later the interest was exempted, however, nobody came to take the loans although it was interest-free loan. This was because the people were afraid of losing the money and being unable to repay. It has been stated earlier that my great-grandfather once was the owner and manager of DF bank, and the

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<sup>13</sup> "Profiteer" is a special group of the 1980s. "Profiteers" is widely popular in the last century, in the late 1980s and early 1990s. China in the process of changing from the planned economy to the market economy, some people uses the difference between the planned commodity and unplanned commodity, and buying cheap while selling dear in the market to seek money. "Profiteer" once was in vogue throughout the land, especially Beijing area.

<sup>14</sup> The Speculation is the product of the planned economy time. It mainly refers to some people relying on the authority in hand, got the fair price scarce products through planning or going through the back door, then hoarded and turns the hand to resell, handed over one after the other level, raises price at each level, finally sold to the final user or the consumer by the high price, made the wealth of populace.

great-grandfather accumulated a lot of social capital with the banks. Moreover, my maternal grandfather Yang Shunwen also accumulated social relations with the banks when he served as the factory director of state-owned enterprises and local cadres. So it was relatively easy for the writer's parents to make contact with the government and banks. They therefore seized the opportunity of infrastructure construction, and dared to respond the first national loan policy. Then they invested in infrastructure construction and other government projects to expand the size of enterprise. Later on when people realised the development of the market economy was good, the country was short of money. After the project was completed, the government could not pay for it, so the government used its resources exchange for the payment. The general procedure is that, the project will be evaluated to know how much money the government should pay after completion. Then the government gives land as payment since the government did not have the money to pay for the project. My parents started with road construction engineering and they finished the project before the deadline set, and the quality just as was prescribed to them. They also paid the wages of workers as was guaranteed. So the suppliers, customers and workers were all assured and believed that this enterprise was credible. At that time my parents decided to use "Chengxin" which means integrity as the company's name. It was Sichuan Chengxin Construction Limited Company.

#### 5.2.3.2 Accumulation and succession of social capital

The great-grandfather accumulated a lot of social capital with the banks. Moreover, my maternal grandfather Yang Shunwen also builds social relations with the banks when he served as the factory director of state-owned enterprises and local cadres. So it was relatively easy for my parents to make contact with the government and banks.

From the initial growth and development of Chengxin Group, we can see that the Chengxin Group's growth process is also the fusion process between Chengxin Group and social capital. In the development and growth process of Chengxin Group, the social capital owned by Hu's family is renewed and expanded. Moreover, this social capital has labelled Hu's family and as an exclusive asset belonging to Hu's family. The social capital of Hu's family provided heterogeneous resources to Chengxin Group, which made the company got a rapid development.

### **5.2.4 The fourth generation: expanding stage**

#### 5.2.4.1 Macro-environment of this stage

In China's modern day economic history, the open door policy refers to Deng Xiao Ping's

visits to the Special Economic Zones (SEZs) in 1992 and his belief that to modernize China's industry and boost its economy it needed to welcome foreign direct investment. After his visit Chinese industry shifted heavily to encourage and support foreign trade and investment. It can be argued that this was the turning point that truly started China on the path to being “The World's Factory”.

After Deng Xiaoping's "Southern Tour Speech" in the spring 1992, from "the useful supplement of the Socialist Public Economy" to "the important components of socialist market economy", the status and role of the non-public economy was further clarified. The private sector with majority of family business has become an impressive growth pole in China's economy. After that China attained WTO membership in 2001 and opened its doors to foreign investment, and this brought the vast international market to the Chinese family business. Meanwhile it also brought the impact and the challenge of globalization, which forced family business to strengthen the investment on technical management innovation, and improve the product and service quality.

During this period the external environment for family businesses had opportunities and challenges. The country continued to relax policy limit and increased support at the same time, there was transformation in the domestic market to the buyer, market gradually standardized. On the international market, competition of multinational group also continued to promote innovation by Chinese family businesses.

#### 5.2.4.2 Hu Jianyong (The researcher) and his entrepreneurship journey

The main actor of this generation is the present writer, Hu Jianyong. In 1995, I graduated from Department of Commerce and Economics, Chengdu University. I then decided to start a business after graduating from college, and began the hard and excellence entrepreneurship journey.

The researcher founded his first company in 1995, which was named SHYG Advertising Company. Starting from only two person's advertising company jointly organized with a friend in Hainan, I shuttled in the streets of Haikou between the hotel and tea house every day. For a single advertising tirelessly, I did not miss any opportunities and worked hard like a hunter to look for opportunities constantly. Finally I obtained a very larger order and made 8 million Yuan profit, the first success since my entrepreneurship, and finished the first experience in the road of entrepreneurship.

On October 21, 1997, I obtained a culture operation license issued by Xichang Culture

Bureau, named "Lao Zi Mono-Club". This researcher was the owner of "Lao Zi Mono-Club" with 8 million Yuan registered capital. It operated units like disco and Karaoke. The setting up of "Lao Zi Mono-Club" was also affected by the social entertainment activities that my grandparent and father were involve in when I was a child. At that time, Hu's family, including my father, Hu Yongquan, often got together and communicated with other revolutionary descendants in the drama stage of Bao Zhenzhai. It can be said that "Lao Zi Mono-Club" and the drama stage of Bao Zhenzhai are the mainstream. Since then, "Lao Zi Mono-Club" was turned into a social contact platform. At the same time of maintaining social capital inherited from my parents and grandparents, I has also begun expanding my social network, and accumulates very important social capital for Hu's family business.

#### 5.2.4.3 Expansion of Chengxin Group

The researcher became very calm and relaxed after that experience of entrepreneurship. I came back to Chengdu in 2000 and my parents decided to hand over the operation and management of the enterprise to me. My parents did not gave any shares to my sister, Hu Jianmin, but they required me set up a family fund to guarantee that my sister will be taken care of and have a good life. Up to July 21, 2003, in accordance with the wishes of our parents, the ownership of one company of Chengxin Group was handed over to my younger brother Hu Jiahua. This company's name is Sichuan Yihua Jianxin Trading Co., Ltd. which will be mentioned in the next section.

After I received the enterprise, I noticed the government's call for support to restore the religious industry. So I responded to the call of the government to take up the contract of reconstructing demolished religions buildings in the city. I thought that it was a great business opportunity, and actively cooperated with the government to reconstruct these religious edifices. With all efforts to promote housing demolition, land consolidation, house reconstruction, and effectively cooperate with the government to complete the religious buildings restoration projects. It also made the enterprise flourished and stepped on to a new level. After finishing the government's religion industry recovery project, I spearheaded the off-site trading house project in order to support the economic development of ethnic minority areas. The projects in Xinjiang, Inner Mongolia and Tibet make the enterprise completed the first step of fund's accumulation, and meanwhile also promoted the economic development of minority areas.

After accumulating the capital and experience, Chengxin Group stood in the front of social development. Chengxin Group started to broaden the business ideas, and with a robust,

high-speed and diversified development of ideas to take the road of the development of a diversified group. Chengxin Group setted up many branches in Beijing, Shanghai, Xinjiang and other areas. Its businesses cover real estate development, engineering construction, catering and recreation, culture and media industry. Chengxin Group cooperates widely with local communities to develop the economy, and actively supported local economic construction, and actively cooperate with the local government to solve the problem of employment, promote social stability and harmony, support the local taxes, and make due contributions in the area of corporate social responsibility.

The catering and entertainment unit and the real estate and construction engineering unit were the two big main sections of Chengxin Group. The Group opened up catering entities in prime location of Chengdu. They are Chengxin Restaurant and Chengxin Wine shop. The owners of Chengxin Restaurant and Chengxin Wine shop are Chengdu Chengxin Zongda Real Estate Agency Co., Ltd. While the shareholders of Chengdu Chengxin Zongda Real Estate Agency Co., Ltd. are the author and Chengxin Investment Control Group Co., Ltd. This author holds 49% of the share of Chengdu Chengxin Zongda Real Estate Agency Co., Ltd., and Chengxin Investment Control Group Co., Ltd. holds 51% stake. Actually, Chengxin Restaurant and Chengxin Wine shop are the holding one hundred percent of the enterprise by Chengxin Investment Control Group. They are all controlled by Hu's family. Chengxin Restaurant is a subsidiary of Chengxin Group, a large upscale casual dining and upscale social venue with a total investment of over 150 million Yuan, the total construction area nearly 20,000 square meters. Chengxin Restaurant have one spacious and elegant banquet hall which can accommodate 400 people, a dining or meeting multifunctional banquet hall which can accommodate 150 people, dozens of deluxe banquet private rooms and leisure private room, an archaize ecological tea gallery, an open-air leisure food bar, and a separate sun roof house meal foyer, a separate sun roof waiting-meal lounge. Chengxin Restaurant is not only an operational entity but also the platform that Chengxin Group service to the society and maintain social harmony relationship. Chengxin Restaurant and Chengxin Wine shop fuse the essences of the three kingdoms culture, the ancient Sichuan culture and the Zen culture, and becomes the benchmark of the local ancient cultural catering. Chengxin Restaurant is also unique in the local catering industry, and among the top eight. They contributed to the creation of the China's best tourist city, and promoted the development of Chengdu tertiary industry and the national economy of Sichuan.

The real estate and construction engineering unit is a large unit which was established

after Chengxin integrated other smaller firms together, which includes Sichuan Chengxin Jinyu Construction Group Co., Ltd., as well as its sub-company Sichuan Jinyu Real Estate Development Co., Ltd., Sichuan Chengxin Shengshi Decoration Engineering Co., Ltd., Sichuan Shengshiyangguang Landscaping Greening Engineering Co., Ltd., Sichuan Yihuanjianxian Trading Co., Ltd., and Chengdu Shengshi Centaline Property Consultants Co., Ltd. (as shown in Figure 5-5 Organizational chart of Chengxin Group). Chengxin Investment Control Group Co., Ltd. holds Sichuan Chengxin Jinyu Construction Group Co., Ltd. with 84.16% stake, other shareholders of the company are all companies controlled by my family. Therefore, the actual controller of Sichuan Chengxin Jinyu Construction Group Co., Ltd. is my family. In recent years, in addition to more than 160 million square meters of building construction engineering, development and sales agent of more than 140 million square meters, this section also owns 30 acres of downtown real estate, own building area more than 60,000 square meters. At present, the focus of the real estate and construction engineering section has gradually shifted to the real estate concrete project development, construction and marketing agent. In the construction and decoration of ancient buildings and temples, Chengxin together with the Buddhist community and the Taoist community completed the decoration design and construction of Wenshu Monastery, Qingyang palace, Wenjiang Nanyue Temple, Chongqing Huayan Temple, Qingcheng Puzhao Temple, Panzhihua Guangfu Temple, Emei Ming and Qing Court, Jiangxi Ten Thousand Buddhas Temple, Xichang Dabao Temple, Baojian Village. Chengxin Group has got the support and praise by the president of the Buddhist Association of China, Master Yi Cheng, Wei Xian Masters of Chongqing Buddhist Association, vice president of the Buddhist Association of Sichuan Province Da En Master, the masters of Chengdu Wenshu Monastery. They called Chengxin

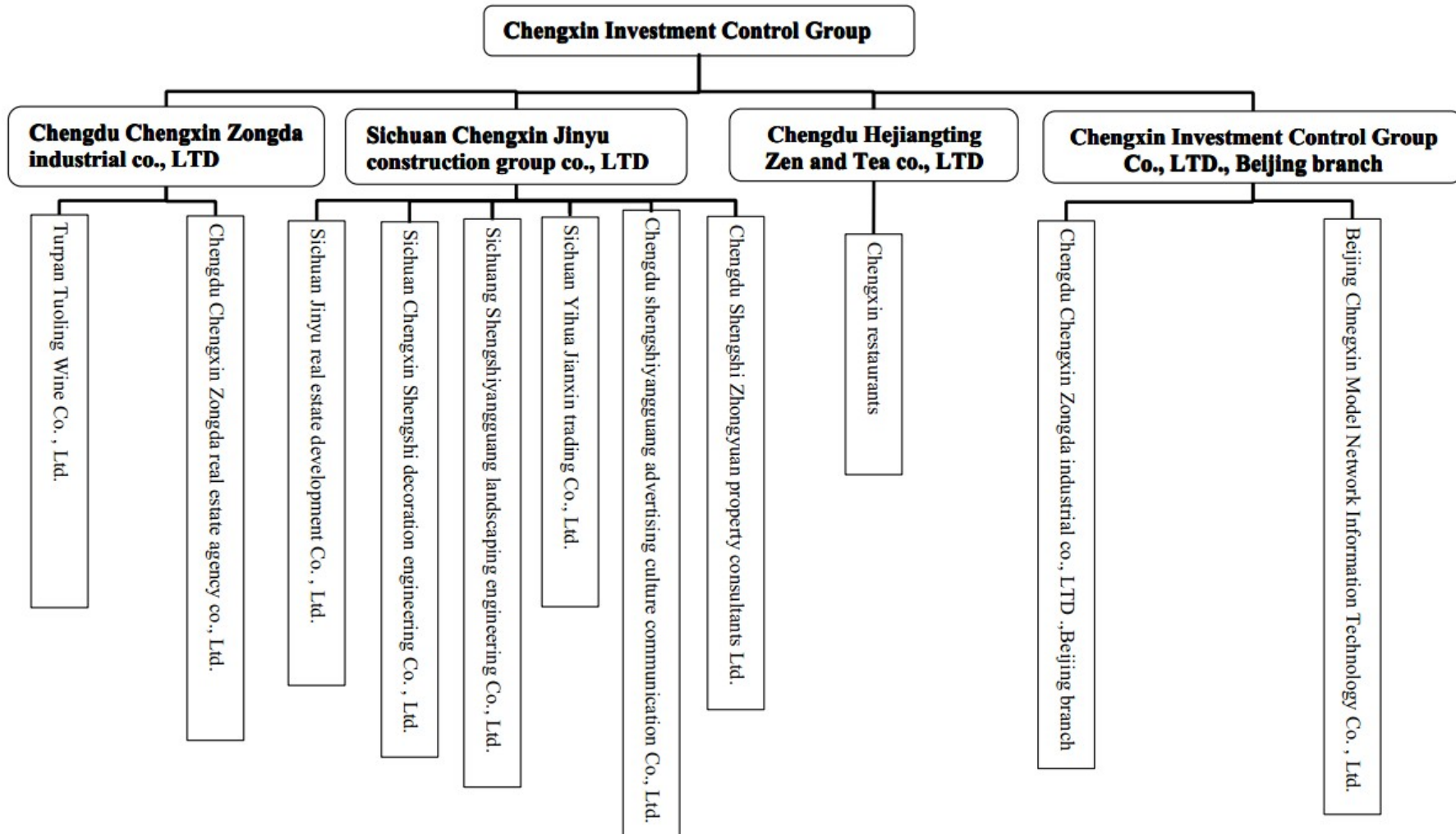


Figure 5- 5 Organizational chart of Chengxin Group



Group "Buddha's light shines in the company".

In addition to the catering and entertainment units and the real estate and construction engineering these two units, the culture and media unit which composed of the Chengdu Shengshiyangguang Advertising Culture Communication Co., Ltd. and Beijing Chengxin Model Network Information Technology Co. Ltd., are also developing rapidly. Chengdu Shengshiyangguang Advertising Culture Communication Co. Ltd., which was established in 2000, is one company with one hundred percent control by Chengxin Investment Control Group. It is a comprehensive advertising and cultural company which is made up of advertising planning, public relations, ritual ceremonies, performing arts and entertainment all in one company. The company is committed to provide customers with the brand strategy and promotion, product promotion strategy and execution, customer relationship management and maintenance, exhibition and performing arts planning and implementation services. In 2007, the company successfully participate in organized the Eighteenth World Super Model Contest, and won the praise of the industry. Beijing Chengxin Model Network Information Technology Co. Ltd., was founded in 2008, subordinated to Chengxin Investment Control Group Co. Ltd., undertakes the strategic mission that Chengxin Group enter into the internet market. In May 2008, Beijing Chengxin Model Network Information Technology Co. Ltd. successfully became the organizer of the Nineteenth World Super Model Contest. China model ([www.chinamodelnet.com](http://www.chinamodelnet.com)) also became the only official website of the event ([19.chinamodelnet.com](http://19.chinamodelnet.com)).

Chengxin Group also pays special attention to cultivating and promoting its own brand. Chengxin Hu (cxhu) was named and founded by myself as Chengxin Group's own brand. "Chengxin Hu" brands include the "Chengxin Hu" Wine, the "Chengxin Hu" Artisans, "Chef Chengxin Hu" and "Chengxin Hu" Brand Underwear and other series of products (as shown in Figure 5-6 Chengxin Hu: the brand of Chengxin Group). The "Chengxin Hu" Wine is high-end brand of Chinese wine. The "Chengxin Hu" Artisans is a series of tableware and tea set products launched by Chengxin Group's subordinate catering entity Chengxin Restaurant. The "Chef Chengxin Hu" series of products mainly include seasoning, organic rice, organic millet, organic black rice, organic soybeans and organic mung bean. The researcher founded "Chengxin Hu" brand, on the one hand, he hope Chengxin Group can be sincerity and credit just like "Chengxin" two words, so that others trust Chengxin Group and believe the products of Chengxin Group, and then establish business relationship, enrich and expand Chengxin Group's social capital continuously. On the other hand, I combined the family name of Hu

with the brand at the same time of founding my own brand, which illustrated Chengxin Group is the enterprise controlled by the Hu's family. The purpose of doing so is to connect the social capital with the Hu's family, so that the social capital of Chengxin Group can be only owned by the Hu's family as a heterogeneous resource. Therefore, Chengxin Group's social capital just like mark or label pasted on Hu's family as a proprietary asset attached to the Hu family.

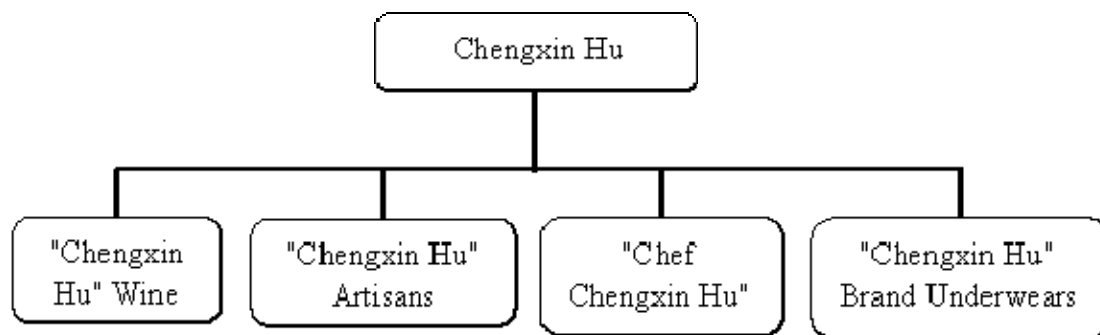


Figure 5- 6 hengxin Hu: the brand of Chengxin Group

In a short period of ten years, under my leadership, Chengxin Group has developed into a Group Company whose business includes real estate development, engineering construction, catering and entertainment, culture and the media. Chengxin Group has dozens of sub-subsidiary in Chengdu, Beijing, Shanghai, Xinjiang and other places in China. Chengxin Group has become a nationwide large-scale comprehensive private enterprise (As shown in Figure 5-7: Chengxin Group National Distribution Schematic Diagram).

Chengxin Group is one of the top 30 private enterprises in Sichuan. It has made a great contribution to Sichuan non-public economic development, social stability and harmony, and injected power for building a moderately prosperous society. Chengxin Group made a great contribution to the economic development of Sichuan, and it has become the local lager taxpayer. From the growth and development process of Chengxin Group, we can get a lot of enlightenment. We can see that the process of Chengxin Group's growth and diversification is also the fusion process between Chengxin Group and social capital. The social capital owned by Hu's family is expanded and renewed in the development and growth process of Chengxin Group. Moreover, this social capital has labeled Hu's family and as an exclusive asset belonging to Hu's family. The social capital of Hu's family provides a heterogeneous resource to Chengxin Group, Therefore, the social capital of Hu's family business can also be seen as a manifestation of the familiness.



Figure 5- 7 Chengxin Group National Distribution Schematic Diagram

### 5.3 Analysis on the role of social capital in development of Chengxin Group

#### 5.3.1 The first generation: preliminary stage

The researcher’s family history can be traced back to the late Qing dynasty. As mentioned in section 5.1.1, Hu’s family is a large family and has a long history. Hu’s family has the tradition of giving great importance on enlightenment and education to boys. My great-grandfather Hu Zuhuai was very intelligent, astute and exceptional. When he grew up, he was engaged in the business of the Banking in Chongqing. The main business of DF bank is commercial exchange among regions. Therefore, they have frequent contact with the commercial world in this process. Then the gathering and circulation of human relations will be generated, and the most important thing of commerce is human relations. So the relationship between DF bank and commerce is relatively large. During the war of liberation, My great-grandfather was responsible for the circulation and settlement of the currency

between the liberated areas and non-liberated areas, which also provide primitive accumulation for Chengxin group. Hu's family paid more attention to business links and the accumulation of social capital. This kind of business sense also influenced the ideas of next generation and the minds of future generations. Their children were instilled a strong sense that "enterprise must rely on social capital, and must value social capital" from their childhood.

The author's great-grandfather's banking business has not only left some wealth for his descendants to provide a guarantee for them to establish businesses later, but also the great-grandfather accumulated a lot of social capital which can provide a platform for Hu's descendants to start a business in dealing with banks. Meanwhile, the business philosophy and spirit of ancestors also infected the Hu's family. This business philosophy and spirit was a kind of invisible genes that was stored in the Hu's family from generation to generation.

### **5.3.2 The second generation: sleeping stage**

In this period, Hu's family business was in a sleeping state, but social capital accumulated by my great-grandfather still existed in the family in the form of "existing capacity" temporarily.

Before the founding of China, Hu's family contributed a lot for the government in that regard. For example, the Hu's family donated an aircraft to the government during the anti-Japanese War. After the liberation, the government implemented socialist transformation of agriculture, handicrafts and capitalist industry and commerce. The holding of private property by individual was not allowed, all fruits of labour were equally distributed, and so family business was not allowed to exist. In order to repay Hu's family's contribution during the anti-Japanese War, the government provided government positions for Hu's family. Therefore, some members of Hu's family became the senior government officials. For example, my grandmother was a member of the Standing Committee of the Sichuan Provincial People's Political Consultative Conference(CPPCC) and my father, Hu Yongquan, was the vice governor of Liangshan.

As mentioned in section 5.2.2, my grandfather lived in Bao Zhenzhai. Bao Zhenzhai is like a small town, there are restaurants and stage for performances. Hu's family and other revolutionary descendants often met there for entertainment and social interaction. This was not the only platform that Hu's family maintain and develop its social capital, but also a foundation that Hu's family later used to establish their catering and entertainment industries.

At the same time, my maternal family was also developing and growing. My maternal grandfather, Yang Shunwen, was the manager of a state-owned enterprise as well as local leading cadres. Although he was demoted later, he had already built very important social network for the next generation during the assignment, which includes links with the government, the bank, and the state-owned enterprises. The family obtained valuable information and scarce resources through these relations. Also my maternal grandmother was Zhang Aiying, the sister of Zhang Aiping. My mother, Yang Jinxiu, accumulated very important social capital for the Hu's family through Zhang Aiping, especially with the government, the state-owned enterprises, the financial departments, and the military departments. Although at that time family enterprise was in a "sleep" state, but these social capital laid a solid foundation for setting up enterprises by Hu's parents.

### **5.3.3 The third generation: revival stage**

China's economic reforms, introducing capitalist market principles, began in 1978 with the open door policy which presented an opportunity for local entrepreneurs. As mentioned above, the social capital of Hu's family was maintained and expanded during the 'sleeping' state. Now this social capital which existed in Hu's family as "existing capacity" has been triggered with the change in the macroeconomic system.

To my parents, Hu's maternal grandfather's social relations were more direct than Zhang Aiping. It is also because Hu's maternal grandfather was the state enterprise factory director and a member of the local cadres, and was able to establish a whole lot of social relations. Moreover, my great-grandfather's banking business established many relationships with banks, which provided a platform for Hu's descendants to start a business with their dealings with the banks. So there was little difficulty faced by my parents when they started dealing with the government, banks and others. They, through these contacts gain valuable information and resources which were scarce at that time. They seize the opportunity during the period of reform and opening by engaging in infrastructure construction and actively use the forefather's social capital to set up Sichuan Chengxin Construction Co. Ltd., and accumulated their own social network. As mentioned above, Bao Zhenzhai is like a small city, there are restaurants and performance stages. My family and other revolutionary descendants often meet there for entertainment and social interaction. My mother opened Chengxin Restaurant just like the Bao Zhenzhai's restaurants and stage. So there was a form of succession in the family business.

My parents seize the opportunity in infrastructure construction and they were quick to respond to the earliest national loan policy, investment in infrastructure construction, the government project, to expand the scale of their enterprise. As earlier on in the above sections, my father, Hu Yongquan, was the vice governor of Liangshan so it is easier for Hu's family to get the trust of government. And in the process of developing Chengxin Group, my parents accumulated a lot of social relations. These social relations form huge social network service for the development of Chengxin. The family through these social networks got heterogeneous and scarce resources. The enterprise's growth process was based on the integrated process between enterprise and social capital. The social capital of Hu's family was expanded and updated in this period. And this kind of social capital has been labelled "Hu" just like a brand as a kind of heterogeneous resource owned by Hu's family.

#### **5.3.4 The fourth generation: expanding stage**

The researcher started to managing Chengxin Group and received the management skills right from his parents hand in 2000. After accumulating the capital and experience, Chengxin Group started to broaden the business ideas, and with a robust, high-speed and diversified development of ideas to take the road of the development of a diversified group. Now Chengxin Group has three business units: Catering and Entertainment Unit, Real Estate and Construction Engineering Unit and Culture and Media Unit. The catering and entertainment unit is the succession of Chengxin Restaurant. The real estate and construction engineering unit was carved out of Sichuan Chengxin Construction Co., Ltd. These two units were formed in the foundation stages when I succeeded his parents. So these firms can be called "Succeeding to father's chairmanship". Another firm is "making a fresh start", and the culture and media units belongs to this group. The researcher founded these firms and he was influenced by the impacted of Bao Zhenzhai and Chengxin Restaurant. As we mentioned above, Hu's family and other revolutionary descendants often engaged in social interactions in Bao Zhenzhai. And Chengxin Restaurant can be seen as a platform for external social communication. I also founded the culture and media units which including advertising planning, public relations, ritual ceremonies, and performing arts.

In order to expand his network of government relations, I joined the China Democratic National Construction Association. Now he is the deputy director for the committee of the Central Economic Committee and Committee of Sichuan CPPCC standing committee. With these government relations, Chengxin Group can obtain the government policy trend timely

and capture the information that benefits the enterprise. At the same time, this also provides a strong support for enterprise's expansion and diversification.

After the "5•12 Wenchuan earthquake"<sup>15</sup>, Chengxin Group donated nearly 3 million Yuan to the victims in the disaster area. The overall donation to society amounts to more than 20 million Yuan in five years. The Group Company through its Chengxin Restaurant sponsors disabled and mass wedding ceremony activities on several occasions. On the one hand, these behaviors reflect the Chengxin Group's social responsibility; on the other hand, they also establish a good reputation for Chengxin Group, and provide a good goodwill for absorption of human capital and social capital.

In addition, the researcher founded his own brand--Chengxin Hu (cxhu). Mr. He added the family name "Hu" to the brand, which can lead to just one conclusion that Chengxin Group is an enterprise controlled by my family. The most important reason for doing this is to connect the social capital with the Hu's family, so that the social capital of Chengxin Group can only be owned by the Hu's family as a heterogeneous resource. Therefore, Chengxin Group's social capital is just like mark or label posted on Hu's family as a proprietary asset attached to the Hu family.

### **5.3.5 Brief summary**

From the above analysis, we have come to a conclusion that there is succession of social capital in Hu's family (as shown in figure 5-8 Succession of social capital of Chengxin Group)

A lot of information has been established in the earlier sections about Chengxin Group and its development and growth stages. The process of development and growth is also the integration process between Chengxin Group and its social capital. The level of the dependence and use social capital of Chengxin group is based on a very deep Chinese traditional culture values, especially family idea, and pays attention to social relations and network building.

In the process of development and growth of Chengxin Group, the social capital of Chengxin Group was expanded and renewed. And this kind of social capital has been labelled "Hu" just like a brand name and as a kind of heterogeneous and exclusive resource owned by

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<sup>15</sup> On May 12, 2008 14:28 04 seconds, the Sichuan Wenchuan and Beichuan, had 8.0 magnitude of earthquakes, since this earthquake has been new China was established destructiveness to be strongest and affect a scope most earthquake.

Hu's family. By analyzing the impact of social capital in various stages of development of Chengxin Group, it can be summarized as follows:

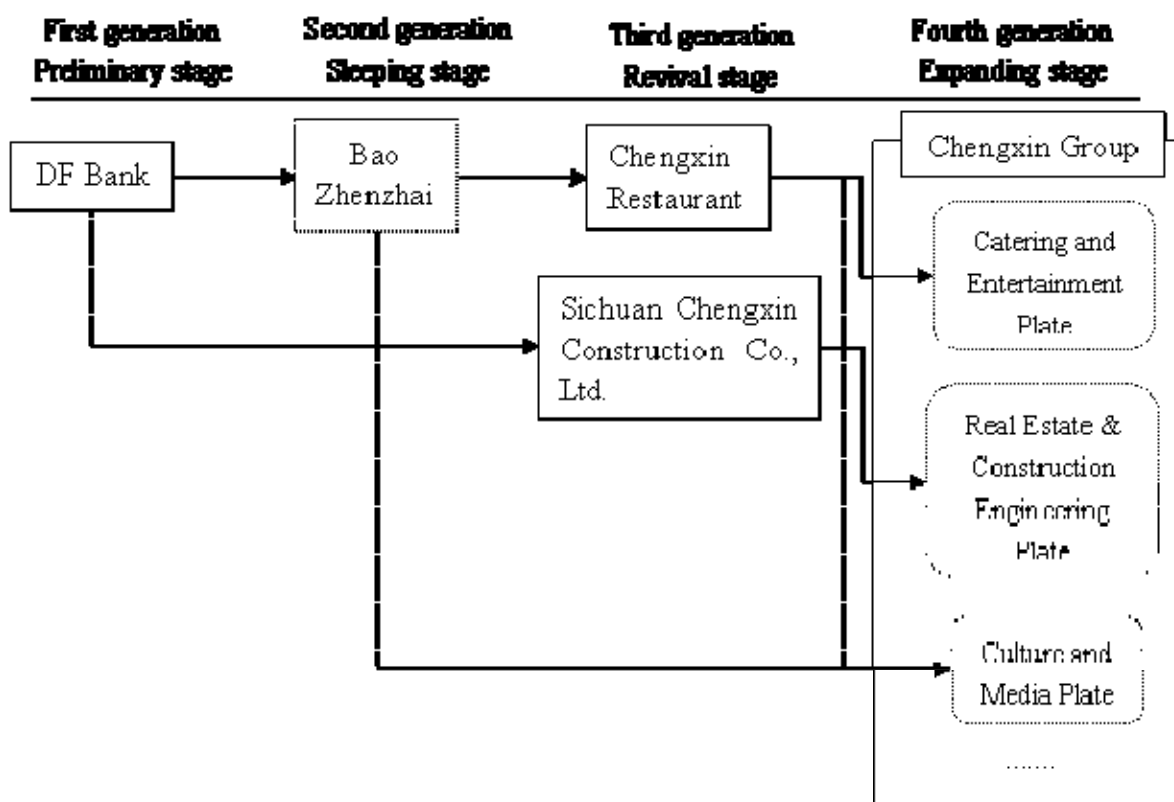


Figure 5- 8 Succession of social capital of Chengxin Group

Source: reorganized by author

First of all, there is no much inherited physical capital and real wealth from my great-grandfather, grandparents, maternal grandparents, parents and other relatives, the most important is the social capital that was actually inherited.

Secondly, Chengxin Group is based on the maintenance of social capital, but maintenance of social capital alone is not necessarily useful. Chengxin Group often looks at the likelihood of maintaining social capital and using it for the development and growth of the company.

Finally, the development of Chengxin Group depends on the combination of physical capital and social capital. The expansion of social capital should base on physical capital as the premise. While only a company has social capital, then the social capital can enrich and increase physical capital. They are interactive and mutually reinforce relationship, so both of them are essential.



## **5.4 The sustainable development of family business based on social capital**

In Chapter 2 of the study, the researcher has elaborated the manifestations and the role of social capital. The social capitals of family business exist in a specific network of relationships and it is the same as the social capital in the general sense. We pointed out that the family business is a combination of family and corporate culture, family property and corporate properties. Correspondingly, the family business and social capital exist in the network of relationships among family relationships. In next section, the study mainly focus on the point of view of social capital and make strategic analysis on the diversified development of Chengxin Group through SWOT, BCG, Ansoff matrix.

### **5.4.1 SWOT analysis**

Chengxin Group undertakes a SWOT analysis by analyzing its own strengths and weaknesses, opportunities and threats of the environment before choosing a particular strategy. Such rational assumptions, consistent with the widely accepted “resource-based view”, holds that to rationally analyze the enterprise's resources and the environment, this should be developed on the basis of the enterprise's own resources strategy.

As the resource based theory states, it is not the visible, the fuzzy set of resources plays an important role in the competitiveness of enterprises, and these resources will further influence the enterprise's strategic decision. The existing research on corporate resources and diversification strategy mainly inspects the internal heterogeneity of resources. Diversification decisions of Chinese family business, not only influence by its internal resources, but also by the impact social capital has on the family enterprises. The internal resources of family business and the social capital, jointly determine the diversification strategy of family enterprises.

SWOT analysis method within an enterprise, is used to analyze its internal conditions, and find out the advantages and disadvantages, as well as the core competitiveness. At the same time, it requires the enterprises to pay attention to the changes in the external environment, and make full use of the external environment of enterprises to provide opportunities and avoid threats. For the SWOT, S represents the strengths, the O opportunities; W representing weaknesses and T represent the threat. Among them, S and W are the internal factors; O and T are external factors. The SWOT analysis matrix as shown in Table 5-2

Table 5- 2 SWOT analysis matrix

	<b>Advantages(S)</b>	<b>Disadvantages(W)</b>
<b>Opportunities(O)</b>	SO Strategy	OW Strategy
<b>Threats(T)</b>	TS Strategy	TW Strategy

Source: Xu Erming: Enterprise Strategic Management. China Economic Publishing House, 2002

SWOT analysis is actually the internal and external conditions summarized in order to choose the best method of business strategy. Among them, SO strategy: advantage or opportunities strategy, mainly emphasizes that enterprises should play the internal advantages, grasp the external opportunities, threats of ST strategy: advantage strategy, an enterprise should make full use of the advantages and avoid or reduce the impact of external threats, WO strategy: weakness opportunity strategy, mainly to the external opportunity to make up for the enterprise internal weaknesses, WT strategy: Weakness - threatening strategy, refers to a kind of efforts taken by the enterprise to avoid external threats and try to compensate for the weaknesses of the measures.

According to the concept of the enterprise competition strategy, SWOT analysis should be a combination of the enterprise strengths and weaknesses, and possibly to do with its opportunities and threats.

According to the information obtained during the study and based on the social capital, we made the SWOT analysis on the diversified business of Chengxin group and summarized as follows:

(1) Chengxin Group diversification advantage based on the social capital.

Years of development and accumulation of social capital can provide raw materials, technology, channels, information, and funds for the development of enterprise resources. Family members involved in many industries and government departments receive timely and effective information.

Hu Jianyong's great-grandfather, grandfather and his father have accumulated a large number of personal connections and social capital which can enrich the financing ways.

The social capital, accumulated by generation, has important implications to the development of the construction business, entertainment business, and food and beverage businesses of Chengxin group.

Hu Jianyong continuously expands new social capital in the process of enterprise development that is also the advantages of Chengxin Group to diversify.

(2) Chengxin Group diversification disadvantage based on the social capital.

With the succession of family, part of the social capital will slowly loss and the over-reliance on the old relationship brings some risks to the stable development of Chengxin Group.

Social capitals decide the direction of the business development that led to over-reliance on the social capital. So, it requires a lot of financial, material and human resources to maintain and expand key social capital.

(3) Chengxin Group on the diversification opportunities based on the social capital.

The social capital that accumulated by the family and expanded by Hu Jianyong, brought timely and important policy information to the enterprise, played an important role for the enterprises to make the right decisions and brought opportunities for Chengxin Group to diversify. For example, getting the information that local government support local religion and culture industry development, it brought a great opportunity to Chengxin Group in the development of cultural industries. Numerous opportunities that were brought by information obtained diversified the development of Chengxin Group.

(4) Chengxin Group diversification external threats based on the social capital.

In Chengxin Group, the development of many businesses is dependent on the policy information that was brought by social capital. So, the continuity and orientation of government policy seriously affected the development of Chengxin Group.

Based on the above discussion, the author made a SWOT analysis matrix of Chengxin Group that is based on social capital, as the basis of its strategic options, as shown in table 5-3.

It must be stated here that wherever opportunities exist there is threats to the industry or firm. The influence of any events is relative. We identified the huge opportunities but Chengxin Group will also face a huge threat. Through the SWOT analysis on Chengxin Group, We realised that the government-related social capital that based on the accumulation of family relations of Hu Jianyong brought timely and important policy information to the enterprise, played an important role for the enterprises to make the right decisions and brought opportunities for Chengxin Group to diversify. But the continuity and orientation of government policy seriously affected the development of Chengxin Group. In order to achieve sustainable development, Chengxin Group must be able to integrate variety of resources and the social capital, foster the strengths and avoid the weaknesses and disadvantages, turn

challenges into opportunities, achieve the organic integration of their superior resources and their main business and establish its core competitiveness. Only then, Chengxin Group can achieve sustainable development at a high speed. We also need to note that the policy factors, of course, is the main factors affecting the development of Chengxin Group, but Chengxin Group itself also has some problems that needed to be solved urgently, such as, problems with the succession by the family, part of the social capital will slowly loss and the over-reliance on the old relationship brings some risks to the stable development of Chengxin Group; social capitals decide the direction of the business development that led to over-reliance on the social capital. So, it requires a lot of financial, material and human resources to maintain and expand key social capital.

In view of the uncertainty of government policy and the important position of social capital in the family enterprise development, Chengxin group need to diversify operations in the future, to reduce the threat posed by changes in the external environment of the enterprise and enhance the enterprise's own ability to resist risks and sustainable development capacity.

At present, Chengxin group actively adopts mergers, restructuring, and vigorously develop the emerging business, do a good job to maintain the existing social capital and at the same time to accumulate new social capital that lay a solid foundation for the development of the emerging strategic business unit.

If all of these can be successfully achieved, it makes a good start to Chengxin group in achieving sustainable development.

Table 5- 3 SWOT analysis matrix of Chengxin group based on social capital

	<b>Strength</b>	<b>Weakness</b>
	<p>1、 Years of development and accumulation of social capital can provide raw materials, technology, channels, information, and funds for the development of enterprise resources. Family members involved in many industries and government departments receive timely and effective information.</p> <p>2、 Hu Jianyong’s great-grandfather, grandfather and his father have accumulated a large number of personal connections and social capital which can enrich the financing ways.</p> <p>3、 The social capital, accumulated by generation, has important implications to the development of construction business, entertainment business, food and beverage business of Chengxin group.</p> <p>4、 Hu Jianyong continuously expands new social capital in the process of enterprise development that is also the advantages of Chengxin Group to diversify.</p>	<p>1、 With the succession of family, part of the social capital will slowly loss and the over-reliance on the old relationship brings some risks to the stable development of Chengxin Group.</p> <p>2、 Social capitals decide the direction of the business development that led to over-reliance on the social capital. So, it requires a lot of financial, material and human resources to maintain and expand key social capital.</p>
<b>Opportunities</b>	<b>SO</b>	<b>WO</b>
<p>1、 The social capital, that accumulated by the family and expanded by Hu Jianyong, bring timely and important policy information to the enterprise, play an important role for enterprises to make the right decisions and bring opportunities for Chengxin Group to diversify.</p>	<p>1、 A family business, should seize the country private economic policy support, use the fast access to effective information and flexible decision-making to their own advantages, make full use of their own social capital to accelerate its development in a favorable environment and China's rapid economic development.</p> <p>2、 Carefully study the urban development plan of the local government, made the city and government planning as an important reference. Make full use of the information and social capital advantage of the family business. To seize the development opportunities and embedded development of enterprises in the in urban development tide.</p> <p>3、 With favorable external opportunities, family business should to make full use of its own unique advantages, to accumulate and developed their own social capital, to make corporate diversification.</p>	<p>1、 Facing the internal disadvantages of family businesses, it should to make full use of the advantage of the market and policy opportunities. Through continue to accumulate, preserve and promote the social capital to overcome the internal contradiction.</p> <p>2、 In order to cope with the loss of social capital, it is necessary to speed up the continuous development of enterprises, and increase the intensity to maintain family’s social capital and the investment to expand the social capital.</p>

Threats	ST	WT
<p>1、 In Chengxin Group, the development of many businesses is depend on the policy information that brought by social capital. So, the continuity and orientation of government policy seriously affected the development of Chengxin Group.</p>	<p>1、 Facing with the threat posed by global economic crisis and domestic competition is increasingly fierce, family enterprises should make full use of their own inherent advantages, a wide range of social capital and get information timely and effective, to respond to the threats from the external environment.</p> <p>2、 Facing with the uncertainty of government's future policy, the family business have to make full use of advantage of their social capital and rapid decision-making, to stay ahead of market competition.</p> <p>3、 the state property market regulation is a certain impact on the development of corporate real estate business, family business can use social capital to diversify to reduce the adverse impact of the policy</p>	<p>1、 For the status quo that uncertainty of government policy and the family business over-reliance on the social capital, require the Chengxin Group become diversification in the future development, to reduce the threat brought by the changes in the external environment and enhance their own ability to resist risks and sustainable development capacity.</p> <p>2、 For the status quo that uncertainty of government policy and the family business over-reliance on the social capita, Chengxin Group need to increase the intensity to maintain family’s social capital and the investment to expand the social capital.</p>

Source: Reorganized by author

### 5.4.2 BCG matrix analysis

Boston Consulting Group Matrix (BCG Matrix) (also called Growth-Share Matrix), is a famous management strategy developed by a company known as the Boston Consulting Company (BCG). It shows a company as a business unit relative attractiveness in an industry, which includes two aspects: the relative market share and the pace of development of the industry. Its basic idea is: high market share or business unit market grows quickly on the most favourable.

As one Chinese-American sociologist Lin Nan (Lin N.) said, personal purposeful action on time can be beneficial in their own resources to obtain help from their own social network. Chengxin group as a family business has a business strategy, and makes strategic choices, but it also give full consideration to the family itself and the effect of social capital has on the business.

If you are a manager, you should pay attention to your product or service combination, and put them in the BCG matrix for analysis. In the BCG matrix, a product or business have different meanings in different quadrants, as shown in Figure 5-5.

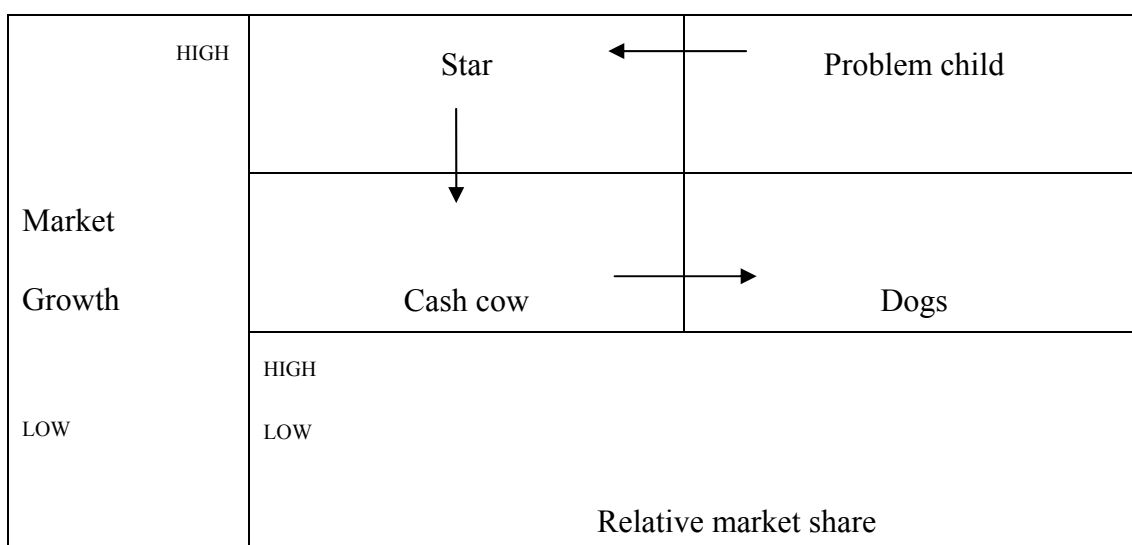


Figure 5- 9 BCG matrix

Source: Xu Erming: Enterprise Strategic Management. China Economic Publishing House, 2002

Problem children are in a high growth rate, low market share quadrant product group. The former means that market opportunities or prospects are good, and the latter shows problems in marketing. Its financial characteristic is the low profit margins, the lack of funds, high debt ratio.

The stars are in a high growth rate, high market share quadrant products. Such products may become the cash cow product and so there is the need to increase the investment to

support its rapid development. Development strategy to use is: actively expand economic scale and market opportunities to long-term interests as the goal, to improve market share and enhance the competitive position.

Cash cows are also known as lucrative product. It refers to the low growth, high market share quadrant product group which has entered its mature period. Its financial characteristic is that sales volume are big, product profit rate is high, the debt ratio is low, can provide funds for the enterprise, but also because the growth rate is low, there is no need to increase investment in this area. It thus becomes the business recovery funds and provides support for other products, especially the star product investment backing.

The dog refers to the low market share and market growth rate of low product. They are like the dog's teeth, are useless, cannot make any profit, but it costs. Therefore, such products should be removed as soon as possible.

Chengxin Group is involved in real estate, construction, industry, catering and leisure industry, and cultural industry. According to the data collected from Chengxin Group between 2007-2011 strategic business units (SBU) performance are shown in table 5-4 below.

Table 5- 4 The performance of the strategic business unit (SBU) of Chengxin Group from 2007 to 2011

<b>Business</b>	<b>Items</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Real Estate	Sales revenue (Millions)	64	82	109	112	103
	The proportion of total revenue (%)	26.7	27.4	28.9	27.7	26.6
	Profit contribution rate (%)	9.8	12.3	16.35	14.2	12.03
Building industry	Sales revenue (Millions)	61	73	97	111	102
	The proportion of total revenue (%)	25.5	24.4	25.7	27.5	26.4
	Profit contribution rate (%)	4.06	5.11	6.60	7.40	6.12
Industrial	Sales revenue (Millions)	72	94	111	120	126
	The proportion of total revenue (%)	30.1	31.4	29.5	29.7	32.6
	Profit contribution rate (%)	12.6	17.4	21.3	26.6	23.8
Catering and Leisure Industry	Sales revenue (Millions)	42	50	59	60	55
	The proportion of total revenue (%)	17.5	16.7	15.6	14.8	14.2
	Profit contribution rate (%)	15.5	17.4	19.6	18.75	14.26



Cultural Industries	Sales revenue (Millions)	9	12	15	11	5
	The proportion of total revenue (%)	17.5	16.7	15.6	14.8	14.2
	Profit contribution rate (%)	2.3	4.6	4.8	2.9	1.2

Source: reorganized by author

As shown in table 5-3, from the point of view of income structure of Integrity Group for five years, the company's main business income is from real estate, construction and industrial sectors. Stable and good profit contribution based on the social capital that accumulated by Hu Jianyong's grandfather and father, the group in the catering and leisure industry has maintained a stable investment and development efforts.

Based on the social capital that was accumulated by Hu Jianyong's parent and the close relationship with the government, Chengxin Group is increasing investment to the two units of real estate and construction in order to obtain higher sales revenue, accelerate the development of enterprise.

Based on the social capital of the family, the company always take the industry as the core strategic business unit, and in the process of development in the industrial sector has found strong market competitiveness.

However, in the cultural industry business, business development from the beginning of the year 2008 has remained stagnant or even retrogresses. It has a certain relationship with the weak social capital of the family in this field.

Based on the social capital, we make BCG matrix analysis on the strategic business units of Chengxin Group.

Real estate and the construction industries as the stars, and they are in a dominant position and must ensure that the conversion to Jinniu business take strengthening and defense strategy. Take measures to: improve design level and product quality, development and consolidation of social capital, maintain the policy information superiority; continue to develop new social capital; choose to focus on diversification and ensure the development of a series products.

Catering and leisure industry as a Taurus and the market growth rate is high, strong profitability, is where Chengxin Group product advantage is, recommend the use of priority and highly defensive strategy. Measures: strengthen innovation, optimize the management and cost structure, using their own cultural characteristics, develop the brands of the Hu family, achieve high profitability and make it as a platform to develop and maintain the

family social capital.

The cultural industry is likely to become stars and may also become thin dog. Because of the existence of certain contradiction Chengxin Group have certain limitations in the development of cultural industry business, managers need to seriously study all aspects of development, and then make a decision. With the abundant social capital and management strength, better prospects for development can increase the investment, on the basis of differentiation; search for competitive advantages; with the introduction of technical personnel and the strengthening of technical development for a rapid formation of productive capacity. But if the lack of social capital, and the internal contradiction cannot be reconciled, it should take the harvest strategy, strengthen cost accounting, cost reduction; maximizing existing customer sales potential, focusing on the existing customer sales; improvement of production line and a focus on the competitive products.

With the above analysis based on BCG matrix, we can conclusively make full use of the advantage of social capital, and increase investments in the star businesses which are the real estate, construction and industrial businesses to seize more market share; optimization as a business management structure our cash cow business is the catering and leisure industries since they reduce costs, increase profits and make efforts to preserve and expand the social capital; the problem child is the culture industry which needs a very good analysis, since in the future may develop as the star business and therefore the need to increase investment there to accelerate development. In the future if it develops to become a dog business, a new strategy should be taken to reduce losses, or collapse the business completely.

### **5.4.3 Ansoff matrix analysis**

Ansoff matrix was created by the father of Policy Management in 1975. It summarizes strategic options which enterprises are faced, starts from two fundamentals which are product and market, distinguished the four product/market combinations and the corresponding marketing strategy. It has become one of the most widely used marketing analysis tools. These four growth strategies are market penetration, market development, product extension and diversification. The risk of each strategy also increases in turn. Ansoff matrix is as shown in Table 5-4 below:

Market penetration refers to the use of existing products to face existing markets. It takes current product market portfolio as the focus of development and makes every effort to

increase the product's market share. Taking the market penetration strategy, you can persuade customers to switch to different brands of products, or persuade customers to change habits and increase purchases by means of promotion or improvement in the quality of service.

Table 5- 5 Ansoff matrix

<b>Product</b>	<b>Present</b>	<b>New</b>
<b>Market</b>		
<b>Present</b>	Market penetration	Product development
<b>New</b>	Market development	Diversification

Source: Xu Erming: Enterprise Strategic Management. China Economic Publishing House, 2002

Market development refers to the use of existing products to open up new markets. The enterprises must find the same product demand of consumer from different market and product positioning and marketing methods will be adjusted, but the core technology of the products themselves are not changed.

Product extension refers to the introduction of new products to existing customers. Taking the product extension strategy, fully develop and utilize the existing customer relationship. Usually expand the depth and breadth of existing products, launch a new generation or related products to existing customers, and improve the share of the manufacturer in these existing markets.

Diversification means the enterprises provides new products to new markets. It is a relatively risky growth strategy because here the specialized knowledge ability of the enterprise may be worthless. There are two types of diversification, related diversification and unrelated diversification. Related diversification means that the new products were produced from the same market or industry. For example, soccer and basketball, both of them are in the sports industry. Unrelated diversification refers to the situation where the enterprise enters a new market or industry which it is not familiar with. An example is where a real estate enterprise goes into the production of football equipment.

Based on the business development status of Chengxin Group and the competitive advantage brought by the social capital of family, we analyze Chengxin Group using the Ansoff Matrix.

### **(1) Market Penetration Strategy based on social capital**

With the support of social capital that accumulated by generation, Chengxin Group have certain brand awareness after years of development. It can make full use of the advantages with preferential access to a number of product areas and brand advantage. This advantage

account for a big part of their market share and it is good for market penetration.

It can clearly be seen that, Chengxin Group's products has not reached market saturation yet and so there is the potential of increasing marketing efforts and sales volumes would go up.

However, the implementation of Chengxin Group penetration strategy also has certain adverse effects. Chengxin Group reliance on existing social capital was increased in the development process. With a slight change in the external environment and national policy, the Group may break down because of lack of innovation and adaptability.

### **(2) Market Development Strategy based on social capital**

Open up new markets for existing products and the enterprises must find the same product demand for customers in different markets. For Chengxin Group, it should implement the market development strategy, which was supported by the corresponding macroeconomic situation and domestic policy. As the government adopts economic stimulus policies, domestic economy begins to recover with the southwest regional center in Chengdu, in northern China with Beijing as the center, the southern China with Shanghai as the center, the market will then develop.

However, the disadvantages of Chengxin Group market development strategy are more obvious. The social capital accumulated by Hu family is mostly within the scope of Sichuan province. So, in unfamiliar markets, in the absence of lack of information and asymmetric situation, the enterprise will find it very difficult to develop into the market.

### **(3) Product Extension Strategy based on social capital**

This is done with the introduction of new products to existing customers. By using product extension strategy, fully develop and utilize existing customer relationship.

However, when using the product extension strategy, enterprises should not only have a strong R & D capability and capital, more importantly, it need timely market information and intelligence and it can be achieved based on the existing social capital of Chengxin Group. But with the deepening of single business structure and the social capital, the risk may increase that with a slight change in the external environment and national policy, the Group may break down because of lack of innovation and adaptability.

### **(4) Diversification Strategy based on social capital**

This should also be done by offering new products to new markets. It is a relatively risky growth strategy because of the fact that here specialized knowledge ability of the

enterprise may be worthless.

However, there are many favourable factors and conditions when the enterprise adopts diversification strategy. Chengxin Group has a good advantage that the social capitals accumulated by Hu family from generation to generation are involved in many fields and it is a very good condition to diversify. Under the support of the existing social capital, the enterprise must enter and develop more competitive businesses, and continue to develop and accumulate new social capital.

The expansion of social capital should base on physical capital as the premise and the social capital can enrich and increase physical capital. They are interactive and mutually reinforced relationship and it is one of the key factors for sustainable development of the family.

#### **5.4.4 Brief summary**

Chengxin Group as a typical family business which is experienced acquired through the efforts of several generations and has gradually develop and grew the business, begun with a single product and gradually developed into a diversified large enterprise groups, which condensed several generations of commercial spirit and corporate culture. From the development of Chengxin group, we can get a lot of inspiration from the process of its growth and development; we can also see the growth of the Chengxin Group and also the enterprise social capital accumulation and growth process. As the enterprise was growing the social capital which was owned by the family and the enterprise has been constantly expanding and updated and the social capital has been labelled as Hu's family, as a kind of specific assets held by the family, which is a familial.

We, through the SWOT, BCG, and Ansoff matrix analysis, found that social capital is a kind of recessive resources and productive element which cannot be ignored in family enterprise development process. It also influences the family business and governance and the development direction through embedded family businesses and individual entrepreneurs. The social capital brings a lot of competitive advantage for the enterprise, such as social networking, information, capital and knowledge and so on, which has played a critical and decisive role in the process of the development of the enterprise.

In conclusion, through analysis, we conclude that the Chengxin Group choosing of the diversification route is right based on the competitive advantage which was brought by social capital.



## **Chapter 6: Conclusions and recommendations**

### **6.1 Major conclusions**

Family businesses sustainable growth is a multifactor interaction of evolution process of constantly overcoming crisis and seeking development opportunities. It is also a process of composite system of family and enterprise from disorderly state to orderly state or is the evolving process from a low-level orderly state to a high-level orderly state. Practice shows that more and more family businesses, although successfully completed the sustainable growth of the evolution of the business, its goal is that the enterprise can continue to evolve and develop and achieve the continued growth but it is extremely difficult to achieve this goal. In the face of the complicated environmental changes, why do some family businesses withstand centuries of ups and downs and stay alive? Why do some family businesses continue to eliminate the competitors in the face of fierce competition in the market? Why some family businesses, like a meteors disappeared instantly? Why do some family businesses face bankruptcy crisis while in its boom? The only way out for the enterprise is that it need continue innovation and learning, discover their competitive advantage, make full use of social resources which was owned by family enterprise, and keep the life of the family and itself in a constantly changing environment.

Based on family business as the research object, this study fully absorb the social capital, resources-basic theory and familial and other subject knowledge and research methods and concludes that social capital is a kind of recessive resources and productive elements which cannot be ignored in family enterprise development process, which influence the family business governance and development direction through embed family businesses and individual entrepreneurs. At the same time, it has a huge impact on the sustainable development of family enterprises. On this basis, we use the Chengxin Group, through the SWOT analysis and BCG matrix and Ansoff matrix to study the situation in China. The use of social capital has a close impact on the whole development process of family enterprises which also informed enterprise's diversification, development and expansion process. Specific research conclusion is as follows.

(1) In the Chinese context, through the detailed analysis of the whole development

process of the Chengxin Group, we can draw the conclusion that social capital is a kind of recessive resources and productive element which cannot be ignored in family business development process. This also influence the family business governance and development direction through embed family businesses and individual entrepreneurs.

(2) Throughout the study we found out that the resources and the ability of the family business has its own uniqueness and diversity. Social capital is a unique family businesses embodiment of "familial". The difference were brought by the "familial" including a series of resources we may call it familial repository and it brought a lot of competitive advantages for the enterprise such as networking, information, capital, knowledge and so on. This has played a critical and decisive role in the process of the development of the enterprises.

(3) The enterprise has different tangible and intangible resources, these resources can be transformed into a unique ability; these resources in the enterprise cannot flow between enterprises and it is difficult to reproduce. These unique resources and capabilities are a source of enterprise competitive advantage. These tangible resources is easy to replicate and obtain, intangible resources are the source of enterprise competitive advantage. Based on the Resource-Based View ( RBV ), the social capital of family businesses is the difference between the heterogeneous resources from other enterprises and this is the source of its competitive advantage.

## **6.2 Research limitation**

At present a study on the impact of social capital on sustainable development of family business is still in its infancy. There are a lot of important theoretical and practical problems that need to be studied further. This study is to research the relationship between family enterprise, social capital and family enterprise sustainable development strategy. Although we have gained some innovative achievements there are still some shortcomings, which we hope that subsequent research can be undertaken to further improve upon it.

First of all, one of the limitations of this study is the absence of qualitative method to test the relationship between social capital and the sustainable development of family enterprises. An examination of sustainable development of family business with the passage of time, through each stage of the strategic choice and its relation with social capital, by the use of quantitative analysis will make the conclusion to be more persuasive.

In addition, while this study spent a lot of time and energy to collect data from the



members of Integrity Group family business, the information obtained only meet the basic requirement of a case study. The randomness of the selection of the sample is not good enough, since there are a lot of enterprises in that industry. The enterprise is not homogeneous, it is an organism which has complex internal structure and has a significant difference in their decision-making and behaviours. (Salvato, 2004; Li Qianwen, 2007). It has its own characteristics; it may be difficult to use these results of the case study to conclude for enterprises of different sizes, different industries and family businesses which are in different regions. Future research needs to adopt a more random sampling approach to make the sample more representative and enhance the reliability of the conclusion of the study.

Finally, this research learn the related research on social capital both from home and abroad, an evaluation system of entrepreneurs social capital, variables and index selection for the research object, and based on the field survey of accumulation as well as the supplement and adjusted on the basis of extensive literature reading and on the spot investigation. In every dimension, the study shows the characteristics of a multi-dimensional, and the hypothesis of this study is only considering the broad categories of factors, such as the relational dimension, structure dimension and cognitive dimension of relationship with the entrepreneurial orientation. Although the hypothesis put forward by the analysis of the connotations of each dimension and its role are described in detail, and through the whole research outline level obtained some valuable findings, but also because of the lack of validation of the finer level factors and ignores some important relationships. Of course, for some refinement factor of targeted research, such as the relationship between dimensions of trust, into the research framework and ideas of the whole the conclusion may not be the same. But overall in a paper that includes all factors of comprehensive and systematic analysis to include all thinning factors in the study is almost impossible, this need an in-depth study to explore the needs entrepreneur's social capital multi-dimensional and multi-level objects. These also are the problems of the author who is very much interested in study. This factors will be affect the data collection and it is difficult to test within the framework of a system, so further research is necessary to delve into.

### **6.3 Recommendation**

The role of social capital in family enterprise and the research about the relationship between enterprise sustainable development and group diversity is becoming one of the hot

issues in family business research. We believe that in the near future there will emerge more about this aspect of theory research and empirical research. This study is just the beginning, there are still many shortcomings, hope subsequent research to improve and deepen.

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