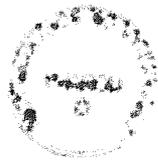


**UNIVERSITY OF SOUTHAMPTON**

School of Management



**Intention Legitimising:  
Strategy Formation in a Chinese Private Enterprise**

by

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ABSTRACT

SCHOOL OF MANAGEMENT

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INTENTION LEGITIMISING: STRATEGY FORMATION IN A CHINESE  
PRIVATE ENTERPRISE

by Yanli Suo-Saunders

This study aims to gain a deeper understanding of strategy formation in Chinese Private Enterprises, given their increasing status in the Chinese economic system. This understanding is particularly significant for effectuating managerial practices in strategy development within Chinese Private Enterprises, and for assisting Western organisations to succeed in the future Chinese market.

In order to achieve the research aim, interpretive paradigm and grounded theory were employed to guide the whole research process so as to obtain a deeper understanding of strategy formation from the participant's point of view. A single longitudinal case research provided a bounded system for this investigation and has also helped to capture the richness and dynamics of strategy formation over a period of two years.

This study has developed a grounded theory of 'intention legitimising' as the central answer to explain strategy formation in the Chinese Private Enterprise. The research suggests that 'intention legitimising' is an aggregate effect of multilevel factors consisting of environmental, organisational and individual levels, with Chinese *siyehjia* (private entrepreneurs) as the determinant factor and organisational *guanxi* (connections or relations) as one major means for 'intention legitimising'. This emergent grounded theory of 'intention legitimising' contributes to remedying the current lack of knowledge about strategy formation in Chinese Private Enterprises. It also enhances our insights into strategy formation in the Western context via the presentation of an empirical case under a dramatically different national setting. Relevant managerial implications are also provided for both Chinese Private Enterprises and Western organisations who have business interests in China.

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<sup>1</sup>For confidentiality, the pseudonym 'Fumin' is used to refer to this investigated Chinese Private Enterprise.

# Abbreviations

**CPEs:** Chinese Private Enterprises

**CPC:** Communist Party of China

**CSEs:** Chinese State-owned Enterprises

**M&As:** Mergers and Acquisitions

**SVGE:** *Sichuan*<sup>2</sup> Vehicles Group Enterprise

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<sup>2</sup>All the Chinese terms in this study are written in *italics*. Please see Appendix B for the meanings of all Chinese terms appearing in this study.

# Chapter 1

## INTRODUCTION

### 1.1 Setting the Scene: Chinese Private Enterprises

China, with substantially different market structures from Western countries, has been characterised as the largest and fastest growing economy in the world (Luo and Park, 2001). Since China adopted the Open Policy in 1978, market economy has gradually replaced planning economy and played a major role in the Chinese economic system. With entry to the World Trade Organisation in December 2001, China has further liberalised its market so as to be connected with the world economy (Schlevogt, 2000).

As a consequence of the transitional economy, there has been a rapid rise in the Chinese private sector which was seldom found before the Open and Reform policy (Tan, 2001). This sector has become a booming market force and earned its legitimate status in the Chinese economic system (Gao, 2001; Holt, 1997; Wang, 1998). It was estimated that gross industrial output, contributed by the private sector, has increased from 4% in 1979 to more than 30% in 2001 (Holt, 1997; Shao, 2002). In China, the private sector officially consists of self-employed businesses<sup>1</sup>, private enterprises<sup>2</sup> and foreign-invested enterprises (Wang, 1998). Chinese Private Enterprises (CPEs) are particularly significant due to their relatively large size, marketised form and their increasing con-

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<sup>1</sup>In China, 'self-employed business' refers to an organisation with unlimited liability and whose employees number less than 8. Family is the major financial source (see Self-employed Business Act, 1987).

<sup>2</sup>Private Enterprises, compared with self-employed business, refer to the profitable organisations with limited liability, privately owned assets and more than 8 full-time employees (see Private Enterprises Act, 1988).

tribution to the gross industrial output (Wang, 1998). Some private enterprises have grown into global players which compete against their Western multinational counterparts such as Huawei Technologies, one of the biggest telecommunication solutions providers in China, currently owning more than 60 subsidiaries worldwide. However, these domestic Private Enterprises are rarely known to the Western world. Therefore, this study is particularly centred upon these CPEs.

The development of CPEs in China has been strongly influenced by the ideology of the Communist Party of China (CPC) (Tsang, 1994). In the past 25 years, the Communist Party of China has continued to explore the best way to incorporate the private sector into the socialist economic system. The ideology of CPC concerning the development of the private sector could be categorised into the following three stages.

### **‘Watch Out’ Stage (1978-1987)**

Since the Third Plenary Session of the 11th Party Central Committee, China has resumed all-round economic construction and executed Reform and Open Policy to the world. Economic development became the primary issue in the agenda of the CPC following the Cultural Revolution (1966-1976)<sup>3</sup>. With the recovery of the economy the private sector had a steady growth, with self-employed businesses as the major form. During the period from 1978 to 1987 the CPC did not have an articulated policy towards this newly emerging private sector. Instead, the CPC applied a ‘Watch Out’ strategy which was characterised as ‘Three No Principles: No Advocate, No Ban, No Publicity’ (Wang, 1998, p. 40). However this principle, in contrast to the forbidden attitude before the Open and Reform Policy, provided a protective environment for the development of the private sector.

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<sup>3</sup>‘The Great Proletarian Cultural Revolution, invoked by Party Chairman *Mao Zedong* in 1966 to try to re-instill revolutionary vigour into the population, lasted technically until 1976, although its most active phase was in the two to three years from mid-1966. The Cultural Revolution was a complex phenomenon, embracing both genuine idealism and cynical struggles for power among its participants, with much random violence; it was also motivated in part by anxiety about external threats.’ (Porter, 1996, p. 104)

### **‘Supplementation’ Stage (1987-1997)**

In 1987 the CPC first articulated its ideology of development of the private sector at its 13th National Congress. *Deng Xiaoping* emphasised that in the primary stage of socialism the public sector took a dominant position and the private sector was and should be a necessary and beneficial supplement (CPC, 1987). In April 1988 the status and function of the private economy were written into the country’s Constitution: ‘Nation allows the existence of the private economy. The private economy is a supplement to the socialist economic system’. Furthermore, in June of 1988 the first Private Enterprises Act was issued.

This stage saw a great leap in the CPC’s ideology of private enterprises when they finally admitted to their legitimate status of CPEs. As a result, according to the statistics from the State Administration Office for Industry and Commerce, the number of private enterprises had increased from 90,581 in 1988 to 960,000 in 1997, with the number of employees increasing from 1,640,000 in 1988 to 13,490,000 in 1997 (Shao, 2002).

### **‘Side by Side’ Stage (1997 to date)**

Due to the supplementary role of the private sector, the government applied unequal policies to different forms of ownership, with major support going to Chinese State-owned Enterprises (CSEs). It was difficult for CPEs to obtain necessary resources, such as financial support, from state-owned banks. Opportunities for entering into infrastructure industries were also limited (Gao, 2001). More importantly, the lack of rules of fair play would result in deterioration of the construction of an effective socialist market economy (Gao, 2001). *Jiang Zemin*, at the 15th National Congress in 1997, further emphasised that ‘it remains a major task to continue readjusting and improving the ownership structure so as to further release and develop the productive forces’ (CPC, 1997). At this meeting, the CPC further confirmed that ‘it is China’s basic economic system in the primary stage of socialism to retain a dominant position for public ownership and to develop diverse forms of ownership side by side’ (CPC, 1997). This was another important milestone for the development of CPEs because it was the first time the CPC has claimed that the private sector was an important component in

China's socialist market economy. Recently, at the 16th Party's National Congress in November 2002, this policy was further strengthened: 'firstly, it is necessary to consolidate and develop unswervingly the public sector of the economy and secondly, it is necessary to encourage, support and guide unswervingly the development of the private sector of the economy' (CPC, 2002).

At this stage another dramatic change in the CPC's ideology of CPEs was witnessed. The status of CPEs has been greatly improved from a supplementary role to a side-by-side component in China's economic system. Under the strong influence of this change, the number of CPEs had reached 2,020,000 with 27,138,600 employees by 2001, in contrast to 960,000 CPEs in 1997 (Shao, 2002). During the period between 1997 and 2002 the number of CPEs grew by around 25% annually. In 1979 CSEs represented 67% of the gross industrial output, and only 4% was attributed to the private sector (Holt, 1997). However, by 2001 the private sector had contributed more than 30% to the China's gross industrial output (Shao, 2002). It is unquestionable that China was and still is experiencing an extraordinary growth from the CPEs and a fundamental change in its basic economic system (Holt, 1997).

## **1.2 Significance of Research on Strategy Formation in Chinese Private Enterprises**

CPEs have contributed much to the fast-growing Chinese economy (Zhao and Aram, 1995; Zhou and Burns, 2000). However, while CPEs' own growth rate is high, it is a fact that their failure rate is also high (Brown and Qi, 2001). It is estimated that 40% of CPEs are on the edge of survival (Brown and Qi, 2001). One critical problem that has been highlighted is that most CPEs are still operating on a primitive basis with only limited managerial capabilities in strategy development, when competing in a much fiercer and open environment (CEO and CIO, 2002; Gao, 2001; Schlevogt, 2000; Tsang, 1994). Therefore, how to enhance managerial practices in strategy development is particularly significant for the survival and continuity of CPEs in the current Chinese market.

In addition, from the perspective of Western organisations, there has been an increase in the number of foreign companies failing to generate satisfactory performances in the

Chinese market due to their lack of detailed understanding of how Chinese companies manage their businesses. With the increasing status of CPEs, Tan (2001) has proposed that CPEs will play a more significant role in seeking joint venture partnerships in the future. Therefore multinational corporations should carefully study these potential partners or competitors in order to succeed in the future Chinese market. Particularly improving knowledge of management practices in strategy development in CPEs is important for Western organisations who have business interests in China (Tan, 2001).

However, the current knowledge of strategy formation in CPEs is extremely limited and described as 'handful' (Tan, 2002a, p. 105). Despite several studies having contributed significantly to our understanding of strategy formation in Chinese organisations, the major focus is on CSEs or joint ventures (Brown and Easterby-Smith, 1995; Child, 1994; Child and Yuan, 1996; Easterby-Smith and Gao, 1996; Lu and Child, 1996; Yan and Child, 2002). Strategy formation in CPEs attracts little attention (Tan, 2001). It has been suggested that strategy formation among these varied sectors could be dramatically different (Tan, 2001, 2002b). Therefore, current knowledge of strategy formation in CSEs or joint ventures may not be relevant in understanding strategy formation in CPEs. Consequently this has left the area of strategy formation in CPEs mainly unknown and more research is needed to improve our current level of knowledge of strategy formation in this particular sector. Chapter 2 will provide further detailed discussions relating to current literature and readdress the importance of research on strategy formation in CPEs.

One could argue that, if it is impossible to obtain sufficient and accurate models or knowledge from current Chinese studies, we could possibly apply Western models based on the free market economy, largely controlled by the private sector, to CPEs. However, the applicability of Western models to CPEs is regarded as extremely questionable considering the dramatically different economic, political and cultural backgrounds (Editorial, 2005; Porter, 1996). Disparately some studies do find similarities between CPEs and Western companies, for instance, in Tan's work (2001). The answers provided above are bewildering. This has generated both the need and opportunity for carrying on research in the Chinese private context for both Chinese and Western scholars, as has been delineated clearly by the editorial board in their inaugural issue of *Management and Organisational Review*:

‘The need is to chronicle organisations and management systems emerging in a period of profound economic and social change. This is especially important given that Chinese organisations and management systems may not, in the end, resemble their Western counterparts. The opportunity is to reconsider the Western assumptions about organisations and management’ (Editorial, 2005, p. 2).

To sum up, strategy formation in CPEs remains as a fundamentally new but significant area. In order to effectuate strategy development capabilities of CPEs and assist Western companies to succeed in the future Chinese market, there is an urgent need to gain a much deeper and detailed knowledge of strategy formation in CPEs. This PhD research aims to fulfill this task.

### **1.3 Research Methodology and Evolution of Research Questions**

Research methodology is mainly predetermined by research aims and research questions (Silverman, 1997, 1999). As discussed in Section 1.2, this study aims to develop a deeper understanding of strategy formation in CPEs. Accordingly a general research question was developed, as follows, to reflect this research aim at the beginning of the study:

How do Chinese Private Enterprises form their strategies?

In general, strategy formation is viewed as a complex political, cultural and behavioural process that occurs under broad economic, political, industrial and social backgrounds (Pettigrew, 1985). In order to obtain a deeper understanding of strategy formation, interpretive paradigm and grounded theory were employed to gain knowledge from the perspectives of individuals, who are attached to these complex social contexts (Burrell and Morgan, 1979). The detailed reasons are explained in Chapter 3. Furthermore, a single longitudinal case research assisted to provide a bounded system for this investigation and has also helped to capture the richness and dynamics of a diversification strategy formation happening over a period of two years (Stake, 1994). Relating to

specific methods of data collection, qualitative techniques, including semi-structured interviews and participant observations, were mainly utilised to capture information. Relevant documents were also extensively collected. Moreover coding techniques in grounded theory were employed to guide the process of data analysis.

The research question started out broadly in order to reflect the aforementioned research aim rather than construct specific hypothesis (Backman and Kyngas, 1999; Strauss and Corbin, 1998). However the more detailed research questions remained unclear until the process of data collection and analysis was initiated. As Backman and Kyngas (1999, p.41) suggest, ‘although the initial question starts out broadly, it becomes progressively narrowed and more focused during the research process as concepts and their relationships are discovered’. The general research question of this study was further elaborated into three detailed sub-research questions when important concepts emerged from data. In other words, the generation of more detailed research questions was based on emergent concepts rather than being preset at the beginning. These three sub-research questions are listed as follows, with details explained in Chapter 5.

1. What are the characteristics of strategy formation in the Chinese Private Enterprise?
2. How does the Chinese *siying qiyejia* influence strategy formation?
3. What is the relationship between organisational *guanxi* and strategy formation?

The interpretive paradigm and grounded theory have provided this study with a great chance to gain new and deeper insights into strategy formation from the participants’ points of view under a particular Chinese private context.

## **1.4 Structure of the Dissertation**

This chapter aims to clarify two essential issues about this study. The first issue relates to the significance for conducting this research. I have briefly provided explanations from both managerial and academic perspectives in order to illustrate the importance of this PhD study. From the managerial perspective, a detailed understanding of strategy

formation in CPEs will assist managers to enhance their strategy formation practices, and will help Western companies to succeed in the future Chinese market. From the academic perspective, this study can potentially contribute to improving the current lack of knowledge in the area of strategy formation under the Chinese private context. This point will be further elaborated by reviewing extant literature in the theoretical area of strategy formation. A general research question has been further developed to reflect these research concerns mentioned above. The second issue is in relation to the general research approach adopted in this study. The most important feature of this study is its interpretive and grounded nature. This study aims to build a grounded theory rather than verifying specific hypotheses. This characteristic is clearly reflected in the following structure of this dissertation.

The literature review is presented in Chapter 2. Its function is multifold, with primary focus to inform the general research question which bears significant meanings on both theoretical and empirical levels. In order to identify and clarify ‘general or substantive area of focus for the research’ (Strauss and Corbin, 1998, p. 35), multiple theoretical themes relating to strategy formation are broadly reviewed. In addition, strategy formation in the Chinese private context is further discussed so as to present a more localised knowledge. From the extant literature, it is recognised that the research on strategy formation in the Chinese private context is an extremely new but fundamentally significant area. This understanding has contributed to the development of the general research question, which has been initially explained in this chapter.

The methodology adopted in this study is illustrated in Chapter 3. This chapter gives detailed accounts about the philosophical stance of this study and the major methodology adopted for this research. In addition, specific methods for data collection and analysis are also explained in detail. In general, this study employs the interpretive paradigm and grounded theory to guide the whole research process. This approach, fundamentally inductive, allows theories to be gradually exposed and soundly grounded on the data rather than testing specific hypotheses set at the onset. This requires researchers staying close to phenomena investigated and being able to understand the phenomena from participants’ perspectives. In this study, one single longitudinal case research is designed to capture the dynamics and rich meanings of strategy formation over a period of two years. Semi-structured interviews serve as major methods to collect data; coding techniques suggested by the grounded theory are utilised

to guide data analysis. In the end of this chapter, conducting grounded theory in the Chinese context is reflected, and several suggestions have been given to scholars so as to shorten their learning curve when carrying on grounded theory research in the Chinese context.

Chapter 4 provides a detailed case story about how a CPE formed its diversification strategy into the commercial vehicle manufacturing industry. The company investigated, located in Southwest China, operates in multiple unrelated business areas including property development, transportation, the hospital service etc. Since 2001, the company has been actively involved in diversifying into the commercial vehicle manufacturing business. This chapter illustrates major activities that occurred during the process of this diversification strategy formation. Its environmental and organisational contexts are also documented including corporate history, structure, strategy and its industrial environments, so as to gain understanding about the context within which this diversification strategy formation was unfolded.

Data analysis is reflected in Chapter 5 and Chapter 6. This study has mainly followed Strauss and Corbin's approach towards grounded theory, which delineates data analysis into three stages: open coding, axial coding and selective coding. These three stages are highly iterative and interwoven; therefore it is extremely difficult to separate them completely. I use Chapter 5 to mainly illustrate the results from open coding; seven categories with their subcategories, properties and dimensions are explained in detail in this chapter in order to lay a solid foundation for further grounded theory building. At this stage, guided by emerged important categories, the general research question, initially introduced in the introduction chapter, is reflected and further elaborated into three more detailed sub-research questions. Chapter 6 demonstrates findings mainly derived from the axial coding and selective coding stages. A paradigm model is constructed to show the logical relationships between the seven categories generated in Chapter 5. Guided by several techniques suggested by Strauss and Corbin (1998) in the selective coding, 'intention legitimising' is developed as the central category which can represent the essence of strategy formation under this particular Chinese context. By focusing on three detailed sub-research questions, the concept of 'intention legitimising' is further enhanced. At the end of Chapter 6, a concise and integrated grounded theory of 'intention legitimising' is constructed to synthesise the whole research.

Chapter 7 integrates the emergent grounded theory of ‘intention legitimising’ in current literature. The discussion is arranged around three sub-research questions. During the discussion, some highly relevant theoretical themes such as entrepreneurship relating to strategy formation are introduced where necessary. The chapter starts to position the concept of ‘intention legitimising’ in current literature so as to gain a more clarified understanding of the connotation of this emergent concept. The discussion then turns to explore the characteristics of strategy formation in CPEs. Similarities and differences between the Chinese and Western context are also drawn in comparison with extant strategy formation literature. It is followed by discussion of the relationship between Chinese *siying qiyejia* and strategy formation. The final section of this chapter delineates the last sub research question regarding the relationship between organisational *guanxi* and strategy formation.

Chapter 8 draws together the conclusions of the whole research. The chapter begins with the reiteration of the research aim and key findings. The remaining part of the chapter is mainly devoted to presenting key contributions of this research. The contributions of this study are addressed from theoretical, methodological and managerial perspectives. Relating to the theoretical contribution, the emergent grounded theory of ‘intention legitimising’ supplies an initial answer to explain strategy formation in CPEs. This finding provides insights into strategy formation in CPEs and contributes to our currently limited knowledge in this significant area. In respect to the methodological contribution, this study enriches grounded theory methodology via a detailed illustration of conducting grounded theory in the Chinese context. Furthermore implications for managerial practices are developed to both CPEs and Western organisations who have business interests in China. At the end of chapter suggestions for future research are provided.

## Chapter 2

# STRATEGY FORMATION

### 2.1 Introduction

The main purpose of the literature review is to inform this study of a general research question which bears significance on theoretical and empirical levels, rather than formulating specific hypothesis among multiple variables. In addition to this main aim, the literature review also benefited this study in the following aspects (Strauss and Corbin, 1998, pp. 49-52): 1) Improved my theoretical sensibility so as to respond to subtle meanings arising from the later data collection and analysis stage. 2) Provided theoretical basis to compare and contrast the later findings with current knowledge.

Within the grounded theory approach, it has been found that scholars write literature in two different ways (Locke, 2001). Heavily dominated by the hypothetical-deductive model of science, literature traditionally appears in the first part of studies so as to introduce phenomena, identify gaps and construct hypotheses. Some grounded studies do reflect this tradition. However, some scholars choose to write literature in integration with emergent theoretical findings (Gioia and Chittipeddi, 1991), as Locke (2001) has observed:

‘Writing the literature in grounded theory differs from the traditional model in that literature is sometimes integrated into the presentation of the model in what is usually the ‘findings’ section of the manuscript’ (Locke, 2001, p. 121).

This study has adopted a mixed approach to document and reflect the relevant literature. By a 'mixed approach', I refer to the approach of combining the aforementioned two ways to structure the literature in this study. This chapter records the initial stage of the literature review; while in Chapter 7, some more specific or new theoretical areas are further introduced based on their relevance or importance to the emergent grounded theory. In addition, the emergent grounded theory is comprehensively compared and contrasted with the literature discussed in both this chapter and later Chapter 7. This mixed approach to the literature more accurately documents the progress of my cognition, also demonstrates the grounded nature of the whole research process, as Strauss and Corbin (1998) argue:

'There is no need to review all of the literature in the field beforehand, as is frequently done by analysts using other research approaches. It is impossible to know prior to the investigation what the salient problems will be or what theoretical concepts will emerge. Also, the researcher does not want to be so steeped in the literature that he or she is constrained and even stifled by it' (Strauss and Corbin, 1998, p. 49).

In this chapter, the literature review is organised into three sections. The first section provides a brief review about varied theoretical areas in the field of strategy process. The differences between these areas are explained; strategy formation is highlighted as a focal theoretical area to which most of the discussion will be directed. The chapter then turns to discuss strategy formation in detail, diversified themes relating to strategy formation are reviewed and evaluated. The last section extends the discussion into the Chinese private context in order to present a more localised knowledge of strategy formation.

## **2.2 Strategy Process**

### **2.2.1 Strategy process and strategy content**

For decades, studies in strategic management have been divided into process research and content research (Andrews, 1971; Ansoff, 1965; Chandler Jr, 1962). The process

research focuses on how effective strategies are shaped within the firm and then validated and implemented efficiently (Chakravarthy and Doz, 1992, p. 5); whereas the content research is mainly concerned with the question of strategy itself and emphasises exploring the linkage between specific strategy, corporate context and its performance (Chakravarthy and Doz, 1992; Huff and Reger, 1987). Chakravarthy and Doz (1992) further articulate the differences between process research and content research from their disciplinary bases and research methodologies. As for the disciplinary bases, the process research, which deals with behavioural interactions between individuals, groups, firms and environment, calls for contributions from multiple disciplines including sociology, organisation theory and behavioural decision theory etc; whereas the content research mainly focuses on economic theories comprising organisational economics, micro economics and macro economics so as to provide corporations with the optimised strategic positions in the environment (Chakravarthy and Doz, 1992). With regard to the research methodology, studies in the domain of the process research have often been conducted within corporations and have used more intrusive methods such as detailed observations and longitudinal research in order to understand complex human behaviours during strategy processes; whereas researchers in the domain of the content research could carry out studies through secondary published data of the firms without deep involvements into field sites (Chakravarthy and Doz, 1992).

The strategic content research has dominated strategic management research for several decades (Chandler Jr, 1962; Hamel and Prahalad, 1994; Porter, 1980, 1985; Prahalad and Hamel, 1990). Extensive studies in this area have been conducted to explore both strategic decisions such as portfolio management, merger and acquisition, diversification and integration etc., and the relationship between them, their context and the relevant corporate performance (Miles and Snow, 1978; Miller and Toulouse, 1986; Porter, 1980, 1985). With theoretical booming of resource-based views in the 1990s (Barney, 1991, 1995; Wernerfelt, 1984, 1995), strategic content research extends its focus from industry to organisational capabilities and emphasises prominent importance of organisational resources in obtaining sustainable competitive advantage. One of the resultant findings from the resource-based views is that the strategy process itself is one essential source of organisational competitive advantage, which in turn is regarded as a kind of dynamic capability (Eisenhardt and Martin, 2000). In addition, Hart and Banbury (1994) have found that corporations who can use multiple strategy processes

will outperform the less process-capable organisations. Schwenk (1995) further suggests that old recipes derived from strategic content research will not be continually suitable in the present turbulent environment, the better way to learn is to explore how corporations think strategically and develop their own innovative strategic decisions in order to compete in the new era. These findings have brought renewed interest into strategy process research. It is evident that the strategy process research is gaining an improving status in strategic management over the last decade (Chakravarthy et al., 2003; Eisenhardt and Zbaracki, 1992; Schwenk, 1995).

Recently, it has seen an increasing critique towards drawing a clear boundary between these two core areas in strategic management (Chakravarthy and White, 2002; Johnson et al., 2003; Pettigrew, 1997). The deficit from this clear dichotomy lies in the recognition that 'process researchers too often lose track of the destination, the strategy outcome...Unfortunately, the work in the strategy process area has been more about process and less about strategy' (Chakravarthy and White, 2002, p. 182). Here, they regard strategy content as one core dimension of strategy outcome and suggest, that without paying attention to strategy content, process research becomes less meaningful. As a solution, some researchers suggest dismantling this content-process dichotomy and regarding that the strategy content as 'an inherent and indissoluble part of ongoing processes' (Johnson et al., 2003, p. 12). This study generally agrees with and follows this argument. It is evidenced that strategic outcomes are integrated into the emergent grounded theory in later chapters, and relevant evidence regarding strategic outcomes is collected and also integrated into the interview question frame. However, in this PhD study, I have focused mainly on process issues rather than content issues for the purpose of gaining an in-depth understanding towards the general research question within a very limited research period, with no intention to regard these two areas as separate issues.

### **2.2.2 Strategy formation in the area of strategy process**

Studies in strategy process cover broad issues, and different terminology has been utilised to represent these sub-divisional theoretical domains. It has been a long tradition to divide strategy process into areas of strategy formulation and strategy implementation (Andrews, 1971; Huff, 1990). Strategy formulation deals with the issues of

how decisions are formulated or should be formulated in organisations; whereas strategy implementation is concerned with the way of implementing strategic decisions so as to bring effective change to corporations (Chakravarthy and Doz, 1992; Huff and Reger, 1987).

However, even sharing these similar meanings, some scholars use different terminologies to categorise the aforementioned sub areas of strategy process. For instance, Pettigrew (1992) uses the terms 'choice process' or 'strategic decision making' and 'implementation process' or 'strategic change' to review progress in the area of strategy process. Some other scholars use 'strategic decision-making' (Eisenhardt and Zbaracki, 1992; Schwenk, 1995) or 'strategic decision process' (Rajagopalan et al., 1993) or 'strategy forming' (Chakravarthy and White, 2002) to explain the phenomena of how organisations develop their strategies. In the literature, some terminologies have been questioned for years for not grasping the complete meaning of how strategies are made. For instance, Mintzberg and Waters (1985) argue that strategy can be a consequence of intentional process, and can emerge without any intention. The term of 'strategy formulation' is more focused on the intentional nature of strategy while neglecting its emergent nature (Mintzberg, 1994; Mintzberg et al., 1998). In other words, strategy can be both formulated and ad hoc (Mintzberg, 1994; Mintzberg et al., 1998; Mintzberg and Waters, 1985). Similarly, the term 'strategic decision-making' is also problematic because 'decision' contains such a strong intentional element, and it can 'sometimes get in the way of understanding behaviour' (Mintzberg et al., 1990, p. 5). In general, it is extremely problematic to select proper terminology to guide research in the current strategy literature. Scholars seem to use terminology based on their personal beliefs and stances, and sometimes use them interchangeably. However, in this study, I choose to use the term 'strategy formation' by following the discussion of Mintzberg et al. (1998, pp. 177-179). The major consideration lies in recognition that 'strategy formation' covers much broader meanings than 'formulation' and 'decision-making' and embraces both intentional and emergent nature of strategy. This choice is also consistent with the study of Chakravarthy and White (2002).

In addition, in the current literature, not only is the choice of terminology problematic but the traditional division between strategy formation and strategy implementation is also seriously challenged. Traditionally, strategy process is regarded as a rational and sequential process during which strategy formation is followed by implementation

(Andrews, 1971; Ansoff, 1965). However, empirical studies seldom confirm that this sequential order among strategic activities actually exists (Quinn, 1978). Instead, strategy formation and strategy implementation are tightly interwoven and are therefore inseparable. This study accepts and follows this logic. It has been argued that central among strategy process issues is strategy formation because it involves fundamental decisions which shape the course of organisations (Eisenhardt and Zbaracki, 1992). Therefore, the major aim of this study is to enrich the understanding of strategy formation rather than strategy implementation in the Chinese private context. However, this study is not intended to regard strategy formation and strategy implementation as separable or sequential activities.

## **2.3 Strategy Formation**

By discussing the above theoretical areas, it is clearly identifiable that the knowledge in strategy formation shapes the focal theoretical basis for this study, into which most of the discussion in this dissertation will fall. Therefore, this section will focus on reviewing diversified themes relating to strategy formation within the current literature.

### **2.3.1 Major dimensions (characteristics) of strategy formation**

For several decades, a large number of models or typologies have been proposed to explain strategy formation behaviours (Allison, 1969; Chaffee, 1985; Eisenhardt and Bourgeois, 1988; Fahey, 1981; Hart, 1992; Hitt and Tyler, 1991; Lindblom, 1959; Mintzberg, 1973; Papadakis et al., 1998; Quinn, 1978; Shrivastava and Grant, 1985). These varied models or typologies have greatly enriched our understanding; however, confusion has also been caused by them for being overlapping and fragmented (Hart, 1992; Paroutis and Pettigrew, 2003). Many scholars have tried to integrate these broad range of process models into coherent theoretical frameworks (Eisenhardt and Zbaracki, 1992; Hart, 1992; Huff and Reger, 1987; Whittington, 2001). For instance, Hart (1992, pp. 330-333) integrates various models into five generic modes: command, symbolic, rational, transactive and generative, based on three dimensions of 'rationality', 'vision' and 'involvement'. However, so far the progress is not satisfactory, as Chakravarthy and White (2002, p. 182) admit 'lacking is an unifying theory

that can reconcile and connect these multiple perspectives'. This lack of integrated understanding in the strategy formation area causes great difficulty for organising current large volumes of literature in this study. However, this research does not purport to discover integrated process models. Instead it will focus on understanding those underlying process dimensions of strategy formation, based on which many models or typologies have been developed and elaborated. Some scholars also use the term 'characteristics' referring to these important dimensions (Rajagopalan et al., 1993). Therefore, 'dimensions' and 'characteristics' are used interchangeably in this study. This way of reviewing literature will capture better the essence of current strategy formation studies, and provide a clarified and relatively simplified basis for later discussion. In parallel, the relevant process models or typologies, highly linked with these dimensions, are also discussed when necessary.

In this section, four major process characteristics comprising 'rationality', 'politics', 'participation' and 'duration' are highlighted and evaluated from the literature. These characteristics have been extensively discussed by numerous scholars (Allison, 1969; Cyert and March, 1963; Fredrickson, 1984; Fredrickson and Mitchell, 1984; Hambrick and Mason, 1984; Hart, 1992; Judge and Miller, 1991; Lindblom, 1959; Mintzberg and McHugh, 1985; Quinn, 1978; Wooldridge and Floyd, 1990). In addition, several key review studies have frequently utilised these dimensions (characteristics) to integrate a large amount of currently available process models or typologies (Chakravarthy and Doz, 1992; Eisenhardt and Zbaracki, 1992; Hart, 1992; Huff and Reger, 1987; Rajagopalan et al., 1993). Table 2.1 supplies a brief list of characteristics adopted in these studies. A few process characteristics are discerned from this table including 'rationality', 'participants', 'duration' and 'politics'. Therefore, this section will engage in an intensive discussion about these process characteristics. However, these factors by no means represent an exhaustive list of process characteristics. Instead, they are better suited to cover major recursive themes in current studies.

### **2.3.1.1 Rationality**

Many process models or typologies built on this dimension assumes that strategic actors are rational, boundedly rational, or located in the continuum shaped by rationality

<b>Author</b>	<b>Process Dimensions (Characteristics)</b>
Huff and Reger, 1987	Rationality assumptions Purpose (normative-descriptive)
Chakravarthy and Doz, 1992	Rationality Bounded rational Extra rational
Eisenhardt and Zbaracki, 1992	Rationality  Politics Garbage-can
Hart, 1992	Rationality Participation Vision
Rajagopalan et al., 1993	Rationality Participation Duration Politics

Table 2.1: Dimensions (characteristics) employed in some key review studies about strategy formation

and bounded rationality (Allison, 1969; Ansoff, 1965; Chaffee, 1985; Cyert and March, 1963; Mintzberg, 1973; Quinn, 1978; Shrivastava and Grant, 1985).

The rational assumption is by far the most influential and classical view towards strategy formation. It proposes that individuals and organisations act as rational economic actors aiming to achieve value maximisation (Andrews, 1971; Ansoff, 1965; Porter, 1980, 1985). Based on this assumption, numerous strategy formation models have been developed (Allison, 1969; Ansoff, 1965; Chaffee, 1985; Mintzberg, 1973; Shrivastava and Grant, 1985). For instance, Allison's 'rational model' suggests 'action as a rational choice', which can be delineated into four distinctive components (Allison, 1969, pp. 187-189). Actors have clear goals and objectives; they develop various options to achieve these goals; relevant consequences consisting of profit and cost are analysed; finally the optimised solution is selected by judging these consequences (Allison, 1969, pp. 187-189).

In the 1970s, strategic planning models were prevalent among large organisations to ensure rationality was achieved among varied levels of corporate units. Formal and lengthy planning procedures, which are divided into several steps including objectives

setting, external audit, internal audit, decision evaluation and decision operationalisation, are constructed to guide corporate strategic activities (Ansoff, 1965). In addition, some specific strategic tools such as SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis are also developed to aid systematic analysing processes (Andrews, 1971). The planning model requires involvement of large numbers of planning specialists to apply complicated planning techniques in strategy formation, and obliges organisational members to participate extensively in formal planning systems and share their information and knowledge. Even though the strategic planning had once dominated strategic practice, it has been found that strategies derived from these planning processes are seldom successfully implemented in practice (Mintzberg, 1994). Mintzberg (1994) argues that strategic planning, as a systematic and rigid procedure, has stifled corporate learning - one essential element of strategy formation, under the current turbulent environment. Recent literature has seen readjustment of planning models which intend to introduce flexibility into procedures in order to adapt to the current increasingly dynamic environment (Beinhocker and Kaplan, 2002; Camillus and Datta, 1991; Major et al., 2001). For instance, varied techniques including strategic issue analysis and scenario planning have been added into current knowledge to assist strategists to better comprehend complicated environment (Camillus and Datta, 1991).

Although some following scholars have crafted diversified rational models, such as Chaffee's linear model (1985), strategy formation generally tends to be characterised as being a logical, linear, analytic and deliberate process rather than being emergent and iterative. The rational perspective has improved our knowledge towards strategy formation and is commonly seen as a starting point for understanding strategy formation. From the practical view, diversified generated models supply a useful repertoire to guide strategy formation. However, the rational perspective seldom accommodates human behavioural factors, which exert essential impacts on the strategy formation. The fundamental assumption that actors are rational is rarely true in reality. Instead, they are boundedly rational. Consequently, strategy formation models, implied by the rational perspective, are rather idealistic and the arrived strategies possibly never turn into practice due to limited understanding of the real world.

An equally persuasive body of literature has challenged the assumption of rationality and argued that individuals can only achieve bounded rationality (Cyert and March, 1963; Simon and Barnard, 1948). Individuals are incapable of fully comprehending

complex environment and generating complete solutions. Consequently, strategy formation tends to be sacrificing rather than optimising (Cyert and March, 1963). The bounded rationality has been further supported by discovery of extensive cognitive heuristics (Das and Teng, 1999; Tversky and Kahneman, 1974). It has been found that for overcoming cognitive limits, individuals use varied heuristics or mental short-cuts to form strategies (Schwenk, 1984, 1988).

Various process models or typologies are developed by building upon the boundedly rational assumption. Incrementalism is one distinguished process model derived from this assumption (Lindblom, 1959; Quinn, 1978). Lindblom (1959) observes the public policy formation process, and concludes that complex public policies are formulated with limited analysis and comparison and that strategy formation is a 'muddling through' process. He (1968) further proposes that policy formation is a purposeless process and policies are consequently emerged in disjointedly small steps without central coordination. Quinn (1978) agrees with Lindblom (1959) on the incremental nature of strategy formation but not on its disjointed nature. Quinn (1978) proposes the concept of 'logical incrementalism' which suggests that central actors will pull disparate ideas or decisions together and utilise vision to lead organisations towards final unified strategies. Mintzberg and Waters (1985) also disagree with Lindblom's 'disjointed incrementalism' (1968) and argue that even in the area of public policy-making, strategies can still be discerned as patterns or consistencies in a stream of actions or decisions.

However, even incrementalism has been challenged by the garbage can model, which asserts organisations in highly ambiguous settings as complete anarchies and strategic decisions as a random confluence of events (Cohen et al., 1972). Accordingly, some scholars have revised the traditional linear process of strategy formation rooted in the rational assumption and observed that strategy formation process is repetitive and cycled rather than sequential (Hickson et al., 1986; Mintzberg, 1976). For instance, Mintzberg (1976) structures strategy formation into three major phases: identification, development and selection. By mapping 25 strategic decisions into these three phases, they find that strategy formation can be a process which combines these three phases in any repetitive, cycled and recycled order.

Generally, the bounded rationality has concluded that rationality will seldom be achieved in reality due to the limit of human's cognitions and organisational resources (Cyert

and March, 1963; Simon and Barnard, 1948). The derived large number of models within the bounded rationality improve the accuracy of theorising strategy formation and therefore predictive power towards strategy formation in reality is enhanced. As a consequence, a large amount of useful knowledge has been provided to the managerial practice for overcoming negative effects derived from these behavioural factors, while simultaneously capitalising on their positive function. For instance, regarding individual cognitive limits, learning has been advocated as one effective way to overcome this hurdle (Quinn, 1978; Senge, 1990). Via learning, organisations can more effectively understand complex environments and develop more innovative strategies (Senge, 1990). Some scholars create structured conflicts such as ‘dialectical inquiry’ and ‘devils advocacy’ so as to improve decision rationality (Schweiger and Sandberg, 1989; Schweiger et al., 1986, 1989). ‘Dialectical inquiry’ uses debates between diametric sets of recommendations and assumptions, whereas ‘devils advocacy’ relies on critiques of a single set of recommendations and assumptions (Schweiger et al., 1986). However, although these models have more pertinently described and theorised the strategy formation in reality and some useful implications have been drawn, they have not sufficiently informed organisations or strategic practitioners how they should act in order to come up with effective strategic solutions. In this respect, the rational perspective has supplied relatively rich and clarified strategic models or tools to assist organisations to form their strategies.

#### **2.3.1.2 Politics**

Derived from the above rationality debate it has been found that the organisation as a whole is also boundedly rational due to the existence of politics (Cyert and March, 1963). Cyert and March (1963) argue that organisations are shaped by multiple coalitions with disparate demands; goals, set via bargaining, are compromising rather than profit-optimising. Stimulated by their studies, many deep insights have been generated regarding the role of politics in the context of strategy formation (Butler et al., 1991; Eisenhardt and Bourgeois, 1988; Narayanan and Fahey, 1982; Pettigrew, 1973, 1977; Pfeffer, 1981).

Currently, the definition of organisational politics is diversified (Pfeffer, 1981). For instance, Eisenhardt and Bourgeois (1988, pp. 737-738) regard politics as ‘observable,

but often covert, actions by which executives enhance their power to influence a decision'. As a major contributor towards understanding micro-politics during the strategy formation, Pettigrew (1977, p. 81) defines politics as 'behaviour by individuals or – in collective terms – subgroupings within an organisation that makes a claim against the resource-sharing system of the organisation'. So far, one widely cited definition is from Pfeffer (1981):

'Organisational politics involves those activities taken within organisations to acquire, develop, and use power and other resources to obtain one's preferred outcomes in a situation in which there is uncertainty or dissensus about choices' (Pfeffer, 1981, p. 7).

Relating to the context of strategy formation, some studies focus on the antecedents of political activities during strategy formation. The general conclusion is that existence of conflict leads to corporate members utilising politics to influence strategy formation in order to achieve their preferred outcomes (Cyert and March, 1963; Pfeffer, 1981; Pfeffer and Salancik, 1978). Pfeffer (1981, p. 69) has developed a comprehensive model to explain various origins of conflict and its relationship with politics. However, his conclusions are challenged by Eisenhardt and Bourgeois (1988) via investigating strategy decision processes in eight high-tech companies. They argue that conflict can be resolved without the involvement of politics therefore, in this respect, the conflicts are not necessary premises for political behaviour (Eisenhardt and Bourgeois, 1988). Pfeffer (1981) also argues that decentralisation of power structure will generate multiple conflicting interests, and therefore lead to utilisation of politics to solve these conflicting issues. However, Eisenhardt and Bourgeois (1988) find that it is centralisation of power structure rather than decentralisation that will result in intensive political activities during strategy formation. Besides these debates, Pettigrew (1977) supplies another reason for the generation of politics by focusing on organisational resources. He contends that because the introduction of new strategy may potentially 'induce sufficient organisational change to unscramble current distributions of resources', political energy is manoeuvred to increase or maintain the current power base among organisational members (Pettigrew, 1977, p. 81).

In addition to exploring the antecedents of politics, some scholars pay attention to delineating the connotation of political strategy formation. Pettigrew (1977, p. 80)

suggests that politics of strategy formation involves two ‘analytically separate but empirically interdependent processes’. ‘The first concerns the demand-generation process, including the sources of the disparate demands in the strategy-formulation process; the second deals with the processes of power mobilization in associating with each demand’ (Pettigrew, 1977, pp. 80-81). He further delineates that the key to link these two processes is the concept of ‘legitimacy’; and politics concerns ‘the creation of legitimacy for certain ideas, values, and demands’ so as to secure sufficient support for favoured demands (Pettigrew, 1977, p. 85). Furthermore, in order to obtain legitimacy, coalitions have to manage corporate meaning systems including symbolism, language, belief and myth so as to construct a favourable cultural environment to legitimise or justify their preferred demands (Pettigrew, 1977). In this aspect, Pettigrew (1973, 1977, 1985) develops an integrated political-cultural approach to gain deep insights into political behaviours of strategy formation. Allison’s ‘bureaucratic politics’ model contends that policies are the output of political game with actors bargaining for their own interests, which have been predetermined by their positions inside organisations (Allison, 1969, pp. 197-202). Narayanan and Fahey (1982) further explore specific stages involved in political strategic decision-making, and five stages are delineated comprising activation, mobilization, coalescence, encounter and decision. Eisenhardt and Bourgeois (1988) develop a comprehensive framework to explore the linkage between origins of politics, organisation of politics and effects of politics. They discover that managers in organisations use multiple political tactics, such as withholding information, controlling agenda, alliance score, cooptation of key decision makers, outlawing staff meetings and external alliances, to influence strategic decision-making (Eisenhardt and Bourgeois, 1988). They also contend that politicality is generally linked with poor performance (Eisenhardt and Bourgeois, 1988).

Incorporation of political factor has greatly enriched our understanding towards the complexity of strategy formation, despite the existence of conflicting ideas in the current literature. However, in general, political strategy formation suggests that corporate members have strong self interests; power struggle and conflicting goals among them will hinder selection of optimised strategic solutions (Allison, 1969; Cyert and March, 1963; Pfeffer, 1981). Consequentially, strategy formation becomes a political arena where dominant coalitions use persuasion, bargaining, manipulation and direct confrontation to accomplish their interests (Allison, 1969; Cyert and March, 1963; Eisen-

hardt and Bourgeois, 1988; Narayanan and Fahey, 1982; Pettigrew, 1977, 1985). It has also been recognised that although politics can drag organisations in varied directions and is also time consuming, it can be managed to improve effectiveness of strategy formation (Mintzberg et al., 1998). For instance, politics can ensure the strongest members of an organisation achieve leaders; the existence of politics can generate diversified strategic ideas for debate and discussion; manipulation of politics can facilitate strategic change despite resistance from old cultural systems and assumptions etc (Mintzberg et al., 1998; Pettigrew, 1985).

### **2.3.1.3 Participation**

It has been a long and traditional view that strategy formation is the province of top hierarchical levels (the chief executive, top management teams, the board etc) (Andrews, 1971; Ansoff, 1965; Hambrick and Mason, 1984; Iaquinto and Fredrickson, 1997; Knight et al., 1999; McNulty and Pettigrew, 1999; West and Schwenk, 1996). Andrews (1971) attributes strategy formation to a single chief executive officer or general manager, he contends they are architects of organisations. This requires that strategy making is situated in a relatively simple and stable context so as the single architect can comprehend all the important information. With the increasing complexity of environment, a heroic figure can not obviously carry on all strategy activities. Since Hambrick and Mason's seminal paper on 'upper echelons' (1984), much emphasis has shifted towards understanding top management teams and their impacts on strategy formation, rather than knowing a heroic top figure (Miller and Toulouse, 1986; Papadakis and Barwise, 2002). A large number of studies have been devoted to explore their backgrounds, personality, cognitions, group characteristics and their influence on strategy formation (Hambrick and Mason, 1984; Hurst et al., 1989; Iaquinto and Fredrickson, 1997; Knight et al., 1999; Miller and Toulouse, 1986; Papadakis and Barwise, 2002; Priem, 1990; Schwenk, 1988; West and Schwenk, 1996). However, these studies still exclude the involvement of a broad range of actors from relatively lower levels and external institutions.

By investigating a large diversified firm, Bower (1970) concludes that strategy formation is a multilevelled process that spreads over nearly every hierarchy of organisations. Strategy formation can be a top-down and bottom-up process (Bower, 1970).

This study has inspired many following researchers to further examine the roles from a much broader range of levels. One of distinguished studies is Burgelman's (1983b) internal corporate venturing process model. He maps multiple strategic activities into three corporate levels including corporate management, divisional management and group leader; he also examines the complex interaction among the three (Burgelman, 1983b). By drawing from these findings, Burgelman (1983a, p. 65) further delineates dual models of strategy formation, one is termed as 'induced' strategy formation, the other is called 'autonomous'. The 'induced' model focuses on developing strategy within the current known strategic domain; strategic initiatives mostly come from the top and the process is generally controlled and planned (Burgelman, 1983a, 1991). Disparately, the 'autonomous' model emphasises generating innovative and new strategic ideas out of current strategic territory and are commonly initiated from organisational members who are close to customers or products (Burgelman, 1983a, 1991).

Partly building upon the above Bower-Burgelman's process models (Bower, 1970; Burgelman, 1983a, 1991, 1996), Regner (2003) has compared strategic formation characteristics between the centre and periphery. He concludes that strategy formation in the periphery (subsidiaries, projects, business and technology units) is inductive, featured as experimenting, exploratory and creative; whereas strategy making in the centre is deductive, highlighting the exploitation of current strategies, resources and capabilities (Regner, 2003). They all conclude that developing innovative strategic abilities requires a shift of focus towards the bottom level of management which have intimate knowledge of the business (Burgelman, 1983a, 1991, 1996; Regner, 2003).

So far, one of most extensive and integrated frameworks to explore the interaction among varied managerial levels is Hart's (1992) five generic modes. By contrasting the role of top managers and organisational members in strategy formation processes, he integrates a large number of previous process models into five generic modes: command, symbolic, rational, transactive and generative (Hart, 1992, pp. 333-339). 'Command mode' is a deliberate and conscious process which is tightly controlled by a strong single leader or a few top managers, organisational members behave like submissive sheep; 'symbolic mode' involves the creation and clarification of an overall vision or mission, relying on which top managers implicitly control strategic actions; 'rational mode', similar to traditional planning models (Ansoff, 1965), involves com-

prehensive information collection and analysis, requires an extensive involvement of strategic planners or analysts; 'transactive mode' emphasises the importance of learning and interactive process between top managers and organisational member; 'generative mode' focuses on innovation and corporate entrepreneurial behaviours from the bottom level of management, the main task of top managers is to select and nurture potential prospective strategic proposals (Hart, 1992).

Rather than focusing on complex interaction among multilevel actors, some studies put emphasis on specific communities (e.g. middle management, external consultants, governments, trade union) in order to gain in-depth knowledge (Hickson et al., 1986; Westley, 1990; Wooldridge and Floyd, 1990). For instance, Wooldridge and Floyd (1990) observe that involvement of middle management is associated with high performance. The Bradford studies (Hickson et al., 1986, 2001) have examined the function of government in the British context and conclude that 'government influence is surprisingly weak' in both the public and private sector (Hickson et al., 1986, p. 67). With the booming of strategy-as-practice view, there is an increasing call to pay more attention to what strategic practitioners actually do in everyday strategic activities (Johnson and Huff, 1998; Whittington, 1996). This has further boosted interest in the issue of strategic practitioners and their practice. They call upon the incorporation of a wide range of internal and external strategy practitioners (Johnson and Huff, 1998; Whittington, 1996). Echoing to this call, some studies have been devoted to examine the periphery role in strategy formation, and useful insights have already been gained (Regner, 2003). It should be expected that a much broader and deeper understanding about participation will be generated from this new perspective in the future.

#### **2.3.1.4 Duration**

Under the present fast changing environment, time has been regarded as a key source of competitive advantage (Stalk, 1988). Consequently, the duration of strategy formation has become an increasingly important topic for both practitioners and researchers (Baum and Wally, 2003; Eisenhardt, 1989; Hickson et al., 1986; Judge and Miller, 1991; Wally and Baum, 1994). Duration of strategy formation commonly refers to the time interval from the first deliberate action to seek information, to the final authorised strategy for implementation, as Judge and Miller (1991, p. 455) define 'duration' as

'the time between the first reference to deliberate action, such as scheduling a meeting or seeking information, to the time in which a commitment to act was made'. Hickson et al. (1986) further differentiate 'duration' into 'gestation time' and 'process time'. 'Gestation time' refers to 'the interval from the first mention of the issue by someone in the organisation until the beginning of specific action taken towards making a decision, e.g. a meeting called or information gathered' (Cray et al., 1988, p. 16). 'Process time' means 'the interval from the initiation of specific action towards a decision to the moment when the final decision is authorised for implementation' (Cray et al., 1988, p. 16). The Bradford studies (Hickson et al., 1986) find that 'gestation time' exists in eighty-eight out of 150 decisions, and usually lasts between one and two years. Due to many strategic decisions having pre-conception stage, they propose that 'gestation time' is possibly 'one of the most curious features of decision-making' (Hickson et al., 1986, p. 106). However, the correlation between 'gestation time' and 'process time' is not found, and the function of 'gestation time' is still unclear (Hickson et al., 1986). Relating to 'process time', the Bradford studies summarise that it takes over 12 months on average to reach an authorised strategic decision among their 150 cases (Hickson et al., 1986). However, the duration for strategy formation can range from one month up to forty-eight months (Hickson et al., 1986).

Some scholars focus on the linkage between process dimensions (characteristics) and duration. One division deals with the influence of rationality or comprehensiveness on duration (Eisenhardt, 1989; Fredrickson, 1984; Judge and Miller, 1991; Wally and Baum, 1994). Comprehensiveness is a measure of rationality that refers to 'the extent to which organisations attempt to be exhaustive or inclusive in the making or integrating of decisions' (Fredrickson and Mitchell, 1984, p. 399). A few studies argue that less rationality or comprehensiveness could speed up strategy formation (Fredrickson and Mitchell, 1984; Mintzberg, 1973). The rationale is that consideration of few alternatives, obtaining limited information and limited analysis would lead to quick decisions (Mintzberg, 1973; Nutt, 1976). However, Eisenhardt (1989) finds that fast strategy-making companies in high velocity environments use a large amount of real-time information and consider varied alternative solutions simultaneously because this comprehensive process accelerates cognitive processing and makes strategy makers more confident. Judge and Miller (1991) confirm that the duration for strategy formation is associated with simultaneous consideration of many alternatives, regard-

less of context. These conclusions are contrary to previous research (Fredrickson and Mitchell, 1984; Mintzberg, 1973). Wally and Baum (1994) give one plausible explanation that the construction of comprehensiveness has both cognitive and organisational aspects, with cognitive comprehensiveness relating positively and organisational comprehensiveness relating negatively to the duration of strategy formation. The second division is concerned with the relationship between politics, conflict and duration. Bourgeois and Eisenhardt (1988) find that politics are time consuming and will lead to poor corporate performance. Some studies support this argument (Hickson et al., 1986; Mintzberg, 1976). Schweiger et al. (1986), based on laboratory experiments, find that structured conflicts, such as 'dialectical inquiry' and 'devil's advocacy', prolong the duration of strategy formation in comparison with a consensus approach. However, the structured conflicts would also increase personal experience whereby decision pace would be accelerated in the long term (Schweiger et al., 1989). Thus conflict will not inevitably lead to the long duration of strategy formation. Eisenhardt (1989) further argues that there is no consistent pattern linking duration to conflict. Instead, it is the way of resolving conflict that plays an important role in enhancing the speed of strategy formation.

Some research concentrates on investigating the links between contextual factors and strategy formation duration. Wally and Baum (1994) present two main contextual factors: organisational structure and top management team characteristics. In terms of organisational structure, Wally and Baum (1994) claim that strategy formation pace appear to be faster in centralised organisations and slower in formalized organisation. However, Eisenhardt (1989) argues that centralisation will not accelerate the pace of strategy formation because strategy makers can not gain enough confidence to make decisions quickly due to inadequate information, excessive workloads or anxiety. As for top management team characteristics, Wally and Baum (1994) find that 'chief executive officer's cognitive ability', 'use of intuition', 'tolerance for risk' and 'propensity to act' associate positively with the fast pace of strategy formation. However, Judge and Miller (1991) find that the relationship between board experience and strategy formation duration is context-specific. In profit-seeking companies, it seems viable that board experience will facilitate the pace of strategy formation, whereas it is not the case in hospital services.

Linking with performance, Eisenhardt (1989) finds that fast paced strategy formation is positively related to performance in high-velocity environments because it improves the capabilities of learning and seeking industrial opportunities. Therefore, comprehensive strategy formation, which leads to fast strategy making, will contribute to organisational performance whereas the politics in strategy formation will slow the pace and cause further performance deterioration (Eisenhardt, 1989). Judge and Miller (1991) further contend that fast pace strategy formation is associated with high performance only in high-velocity environments, and this causal linkage is context-specific and conditional on industrial sectors. However, these studies focus on the firm-level performance rather than specific strategy-level performance whereby the resulting causal linkage between duration of strategy formation and performance is not convincing (Eisenhardt, 1989).

In general, even though there exist multiple research streams relating to the duration of strategy formation, empirical studies relating to this area are very limited (Baum and Wally, 2003). That can possibly explain why a unified and accumulative understanding is lacking and conclusions derived from these research are far from consistent.

### **2.3.2 Contextual factors influencing strategy formation**

The above characteristics of strategy formation are highly linked with strategic context; they are shaped by context and simultaneously they also change the meaning of context (Chakravarthy and White, 2002; Pettigrew, 1992, 1997). Recently, strategy process scholars have gradually reached a consensus that strategy process has to be understood by adopting a context-sensitive approach, which is shaped by two dimensions comprising 'time' and 'space' (Chakravarthy and White, 2002; Johnson et al., 2003; Mintzberg et al., 1990; Pettigrew, 1985, 1987, 1992, 1997). Among these studies, Pettigrew (1985, 1987, 1992, 1997) is one distinguished scholar who integrates the contextual factors solidly into the process research. His concept of 'contextualism' (1985, 1990) is also commonly respected as a major contribution to strategy process research (Johnson and Huff, 1998; Johnson et al., 2003). 'Contextualism' means that studies on strategic processes should explore 'context, content, and process of change together with their interconnections through time' (Pettigrew, 1990, p. 268). In his

seminal work on the Awakening Giant (Pettigrew, 1985), Pettigrew also provides the characteristics of a contextualism approach, as he explains:

‘The multilevel will be described as the vertical form of analysis and the horizontal form of analysis. The vertical level refers to the interdependencies between higher or lower level of analysis upon phenomena to be explained at some further level, for example, the impact of a changing socioeconomic context on features of intra-organisational context and interest group behaviour; while the horizontal level refers to the sequential interconnectedness between phenomena in historical, present, and future time. An approach which offers both multilevel or vertical analysis, and processual or horizontal analysis, is said to be contextualist in character’ (Pettigrew, 1985, pp. 35-36).

Given the importance of strategic context, this section will shift the discussion from the process characteristics to contextual influencing factors of strategy formation. However, this section does not purport to review the complicated relationship between the context and the process characteristics, which has been suggested by numerous studies. Instead, I focus on recognising major types of influencing factors. In this study, the discussion of contextual influence has to be positioned in relation to specific Chinese political and cultural environment (Editorial, 2005; March, 2005). Therefore the related detailed discussion relating to the Chinese context is written in Section 2.4. Four main types of contextual influencing factors have been summarised from current literature including environmental factors, individual leader or management team, decision-specific factors and organisational factors (Papadakis et al., 1998; Rajagopalan et al., 1993). They are discussed as follows.

### **Environmental factors**

According to the environmental determinism, strategy formation is a reactive process to the environment; strategists take passive roles during strategy formation (Hannan and Freeman, 1977). There exists two popular theoretical divisions under this perspective, population ecology of view (Hannan and Freeman, 1977) and institutional theory (Dimaggio and Powell, 1983). Population ecology of view suggests that the

environment, presenting itself to organisations as an iron cage, is a central actor during strategy formation processes; organisations have few choices rather than being selected to a particular ecological niche (Hannan and Freeman, 1977). Superficially, it seems that most organisations do have choices. However, the fundamental determinant force is the environment which controls resources, industrial carrying capacities and game rules; organisational strategies have to constantly adapt to the external environment (Hannan and Freeman, 1977, 1984; Pfeffer and Salancik, 1978). In other words, strategists have no choices but to select the most favourable strategy which best fits the environment; otherwise organisations will die if the strategic fit between environment and organisations is not achieved (Hannan and Freeman, 1977). The population ecology has provided one explanation about why organisations are different because they are located in varied environmental niches or populations. Disparately, the institutional perspective has answered why so many organisations tend to be isomorphic (DiMaggio and Powell, 1983). The answer lies in the fact that external institutional pressures push organisations increasingly convergent. This has been termed as ‘institutional isomorphism’ (DiMaggio and Powell, 1983, p. 152). There exists three different mechanisms of institutional isomorphism. The first is ‘coercive isomorphism’ resulting from formal and informal pressures by other organisations, for instance, organisations have to follow laws and regulations (DiMaggio and Powell, 1983, pp. 152-154). The second isomorphism is called ‘mimetic processes’, which means organisations will constantly imitate the best practice in the industry (DiMaggio and Powell, 1983, pp. 154-156). As a consequence, the best practice will finally prevail in industries and dominate organisational life. Finally, organisations face normative pressures exerted by professionalism, such as lawyers. Therefore, organisations have to conform to certain professional standards (DiMaggio and Powell, 1983, pp. 156-159). Under such strong institutional pressures, organisations do not have many strategic choices but to become isomorphic.

The environmental determinism is mainly concerned with how environmental factors impact upon strategy formation. Many scholars commonly conceptualise the environment into several abstract dimensions such as ‘stability’, ‘complexity’, ‘market diversity’ and ‘hostility’ (Mintzberg, 1979, pp. 268-269) and examine their links with the process characteristics (Bourgeois and Eisenhardt, 1988; Dess and Origer, 1987; Eisenhardt, 1989; Eisenhardt and Bourgeois, 1988; Fredrickson and Mitchell, 1984; Judge and Miller, 1991; Lumpkin and Dess, 1995). For instance, it has been observed

that a comprehensive or rational model for strategy formation is detrimental to performance under an unstable environment (Fredrickson, 1984; Fredrickson and Iaquinto, 1989; Fredrickson and Mitchell, 1984). However, Eisenhardt (1989) provides a totally different account and argues that companies under a volatile environment should utilise a more comprehensive method to develop their strategies. The conclusions are bewildering here. In addition, a surprising gap is drawn by Rajagopalan et al. (1993, p. 359) that 'at a broader level, strategic decision process research has paid very little attention to the cultural and institutional context within which the organisation is embedded'. Considering the importance of the institutional theory on strategy formation (Dimaggio and Powell, 1983), more research needs to be conducted to unfold the significant impacts of these macro environmental factors. Some comprehensive frameworks have been generated to uncover a broad range of environmental factors, such as PEST (Politics and culture, Economy, Society and Technology) (Andrews, 1971). These tools provide useful guidance to categorise the environmental factors.

### **The chief executive or the management team**

Environmental determinism has been challenged by many scholars (Bourgeois, 1984; Burgelman, 1991; Child, 1972; Papadakis et al., 1998). One distinguished opposing voice comes from the strategic choice perspective, arguing that organisations do make strategic choices and these choices do matter to organisational life (Child, 1972). As a fundamental flaw, the environmental perspective has ignored the existence of decision makers or dominant coalitions who can manipulate multiple environmental and organisational factors to influence the corporate path (Child, 1972). The strategic choice perspective underpins the significance of a management team, especially the top level of management (Child, 1972; Hambrick and Mason, 1984; Miller and Toulouse, 1986). They argue that strategy formation partly reflects the idiosyncrasies of decision makers (Child, 1972; Hambrick and Mason, 1984; Miller and Toulouse, 1986). However, so far the conclusions are also inconsistent. As mentioned in Section 2.3.1.3, some studies contribute key determinant actors to a single chief executive (Andrews, 1971), whereas some believe in the group power of 'upper echelons' (Hambrick and Mason, 1984). Even within the division of 'upper echelons', some studies suggest that personal background including functional experience, age, education and socio-economic background play determinant roles on the strategic choice (Hambrick and Mason, 1984).

However, some research suggests that cognitive capabilities of a top management team will matter more (Huff, 1990; Miller and Toulouse, 1986; Schwenk, 1984, 1988; Simon, 1987). Despite the incoherent findings from literature, the strategic choice perspective has drawn the strategy process research to recognise the significant power of leaders or top management teams, which has been fundamentally ignored by the environmental determinism.

### **The decision-specific factors**

Very few studies have paid attention to the characteristics of strategic decisions themselves and their consequences for strategy formation (Papadakis and Barwise, 2002; Papadakis et al., 1998; Rajagopalan et al., 1993). Among these studies, the decision characteristics can be categorised as decision complexity (Hickson et al., 1986), decision motive (Dutton et al., 1983; Fredrickson, 1985) and decision urgency (Dutton et al., 1983). Some distinguished research comes from the Bradford studies which conclude that the types of strategic decision process depend on decision complexity and politicality (Cray et al., 1988; Hickson et al., 1986). For instance, decision process relating to 'vortex matters' such as new products development, tends to be sporadic with little continuity and wide dispersion among management levels (Hickson et al., 1986, p. 175). Fredrickson (1985) finds that if decisions are interpreted as threats rather than opportunities, a comprehensive approach will be adopted to make strategies. Dutton et al. (1983) argue that strategic issues diagnosis is the central to strategy formation process, and issue characteristics such as uncertainty and urgency will determine the comprehensiveness of information seeking, involvement and decision speed.

### **The organisational factors**

The last group of contextual factors relate to a broad range of organisational elements including organisational structure, strategy, past performance and organisational size etc (Papadakis et al., 1998; Rajagopalan et al., 1993). A majority of research in this division is interested in impacts of structural aspects on strategy formation (Fredrickson, 1986; Miller, 1987; Miller et al., 1988). Fahey (1981) finds that organisational structure does not impose much influence on strategy formation. However, Fredrickson (1986) proposes that any strategy can not be made out of organisational dominant

structure. He (1986) further delineates organisational structure into three dimensions of centralisation, formalization and complexity, and examines the detailed relation of these individual structural dimensions with the process characteristics. However, consistent results are lacking. For instance, Eisenhardt and Bourgeois (1988) discover that centralisation rather than decentralisation is linked with a high degree of politics during strategy formation process, whereas the suggestion from Fredrickson (1986) is completely different.

Even though there exists complicated contextual factors which will potentially exert influence on strategy formation process, the environmental determinism and the strategic choice perspectives have attracted numerous attention from strategy researchers. Many subsequent studies have been sparked by the debate between these two perspectives and aim to reconcile them (Bourgeois, 1984; Burgelman, 1991). For instance, Burgelman (1991, p. 239) proposes the 'intraorganisational ecology perspective' to combine internal selection and external selection process. By investigating strategy making in the Intel Corporation, he argues that the organisation represents an ecology of strategic initiatives, from which strategies are sifted through by both internal strategic context and external environment. In this respect, the environmental and strategic choice perspectives are complementary rather than contradictory (Burgelman, 1991). The combination of both will increase the success of strategic adaption and strategic renewals (Burgelman, 1991). It seems that scholars gradually arrive in a more integrated and compromising stance.

## **2.4 Strategy Formation in Chinese Private Enterprises**

In this section I will discuss strategy formation in the context of the CPEs and their surrounding macro environment. In general the research on strategy formation in CPEs is extremely limited (Tan, 2001). Some valuable understanding has been generated by several studies via exploring strategy formation in the Chinese organisations although much attention has gone to the CSEs or joint ventures in China (Brown and Easterby-Smith, 1995; Child, 1994; Child and Yuan, 1996; Lu and Child, 1996; Yan and Child, 2002). It has been argued that ownership will exert great disparity of strategy formation in the Chinese context (Tan, 2002b); therefore it could be potentially misleading if we do not differentiate knowledge among the Chinese private, state and joint venture

sectors. As I have emphasised in Chapter 1, CPEs are the major focus of this study, therefore the discussion will particularly centre upon this sector. Several themes can be discerned from current limited studies in the Chinese private context, including 1) Characteristics of strategy formation in the CPEs (Brown and Qi, 2001; Tan, 1996, 2001, 2002a,b); 2) Their situated political environment and its impacts on strategy formation (Liu, 1992; Porter, 1996; Tan, 1996; Wank, 1999); 3) Cultural environment and its impacts on strategy formation (Gamble and Gibson, 1999; Porter, 1996; Redding, 1996; Tan, 2002a); 4) Chinese entrepreneurs and their impacts on corporate strategy formation behaviour (Holt, 1997; Lee and Tsang, 2001; Tan, 2001; Wong, 1996; Zhou and Burns, 2000). These major themes will be discussed in detail in the remaining sections of this chapter.

### **2.4.1 Characteristics of strategy formation in CPEs**

Tan (1996, 2001) finds that strategy formation in the CPEs is characterised as opportunity-driven, risk-taking and innovative. Tan (2001) suggests that CPEs pursue opportunities more actively than managers in large CSEs, because they perceive the current regulatory environment more positively than state managers. Being afraid of change of present favourable regulatory policies, CPEs are more likely to identify market opportunities (Lukas et al., 2001; Tan, 2001). In addition, the CPEs are more risk orientated. State managers are generally conservative considering their political stakes. However, CPEs are motivated by market performance and therefore are more willing to take risks (Tan, 2001). They usually make fast decisions even without comprehensive information and market research (Tan, 2001). In contrast, the CSEs employ complex and formal procedures when making strategies (Brown and Easterby-Smith, 1995; Brown and Qi, 2001). CPEs also show a high level of confidence when they make strategic decisions. The possible explanation is that confidence will help them conquer the multiple administrative hurdles they face under the current Chinese environment (Tan, 2001). Furthermore, CPEs present more innovative capabilities and they would like to accept new ideas and conduct experiments (Tan, 2001). Based on these observations, it has been suggested that these characteristics show similarity to Western entrepreneurial companies whereas they are contrary to CSEs (Nee, 1992; Tan, 2001); these characteristics in CPEs may assist them to move quickly and outperform the CSEs (Tan, 2001).

It has also been observed that the CPEs in Hongkong, Taiwan and overseas keep key decisions in their family circles (Redding, 1996; Tsang, 2002). Professional management ability is inhibited due to psychological distrust of owners towards management level (Redding, 1996). Similarly, family-run is also a prevalent aspect of management in mainland CPEs. These studies have suggested a rather centralised and top to bottom strategy formation approach in the Chinese private sector. However, strategy formation in the CSEs has gradually been decentralised, with board members and senior executives instead of government authorities making strategic decisions (Brown and Qi, 2001; Lu and Child, 1996).

Brown and Qi (2001) have found that the combination of 'outside-in' and 'networks' is a distinguished characteristic of strategy formation in both state and private sectors. They utilise three approaches comprising 'outside-in', 'inside-out' and 'networks' to depict strategy formation in the Chinese context (Brown and Qi, 2001, pp. 285-289). The 'outside-in' refers to the strategic approach that is driven by external environment; the 'inside-out' is an approach focusing on cultivation and expansion of internal capabilities; the 'network' approach 'places a premium on understanding, managing and influencing the set of actor-resource relationships within which the organisation transacts its business' (Brown and Qi, 2001, p. 285). By comparing Chinese companies with these three approaches, Brown and Qi (2001) propose that the CPEs lack attention in cultivating internal capabilities, the 'outside-in' and 'networks' are typical ways for developing corporate strategies. They further contend that this can be problematic in the future when the market becomes more competitive and volatile (Brown and Qi, 2001).

In general, despite the fact that current studies have provided some inspiring insights towards strategy formation in the Chinese private context, they are rather suggestive and experimental, leaving many details to be further explored. Relating to the process dimensions (characteristics) (see Section 2.3.1), which have been extensively debated and discussed in Western literature, we know very little about process rationality, involvement, political activities and duration in the CPEs. A more detailed and systematic knowledge is required in order to understand the complexity and dynamics of strategy formation in the CPEs, as Tan (2001, p. 371) has summarised 'the characteristics of strategic decision-making of Chinese managers and private entrepreneurs, a

subject of much speculative and anecdotal writing but subject to little empirical analysis”.

## **2.4.2 Regulatory environment and strategy formation**

### **2.4.2.1 Political ideology of CPC and strategy formation**

It is widely accepted that the CPC’s ideology forms a fundamental element of the regulation environment (Boisot and Child, 1996; Gao, 2001; Nee, 1992; Tsang, 1994). Even though the status of CPEs has been improved from the ‘supplementary’ to ‘side by side’ roles (see Section 1.1), the CPC’s political ideology towards the CPEs is still a perceived uncertain factor which will influence organisational behaviours (Nee, 1992; Park and Luo, 2001; Tsang, 1994). China is currently aiming to build an effective socialist market economy with Chinese characteristics (CPC, 1992). ‘Market socialism’ is a fundamental policy that guides the whole economic and political system (Tsang, 1994). CPEs were traditionally regarded as an ideological contradiction towards socialism (Tsang, 1994). With the development of market reform, it has been commonly accepted that the CPEs are beneficial for improving the social productivity especially when China is still at the primary stage of socialism. These supportive opinions have all been reflected in the 15th and 16th CPC’s National Congress. However, a long term political ideology of the CPC towards CPEs is still unknown and disputing (Porter, 1996; Tsang, 1994). As a result of uncertainty, Chinese private entrepreneurs still have psychological insecurity (Tsang, 1994). This is reflected in varied aspects. Firstly, the Chinese private companies are unwilling to be called ‘*siying qiye*’ (private enterprises). Instead, they prefer to be named as ‘*minying qiye*’, which literally means enterprises that are managed by people (Liu, 1992). By using the term ‘*minying qiye*’, organisations can avoid to be associated with the term ‘private’. In addition, the terms connected with ‘private’ are also limitedly used in the Chinese academia (Brown and Qi, 2001; Gao, 2001). Secondly, ‘red hat’ phenomenon in the CPEs has drawn much attention from Western scholars (Boisot and Child, 1996; Brown and Qi, 2001; Nee, 1992; Zhou and Burns, 2000). In order to conquer institutional discrimination, ‘up to 50 percent of private enterprises are registered as collectives and the trend is well established’ (Brown and Qi, 2001, p. 279). Thirdly, CPEs are more sensitive to the CPC’s policies than the CSEs, especially during the period of shuffling top political

leaders (Tsang, 1994). Besides psychological insecurity, the uncertain ideology also leads to consequences that government applies unequal policies to CPEs. Gao (2001) has addressed several issues which have seriously hindered the development of CPEs. For instance, CSEs can get full financial support from banks and have priority to go to public, whereas there are no specific financial institutions to support the development of CPEs. Private properties are also not protected by the Chinese constitution. However, any offence towards state property will be severely punished. Although the regulatory environment of CPEs is continually improving, to achieve absolute equality between the state-sector and private sector is still not an easy matter.

Some studies have proposed that the ideological environment serves as an important factor for the explanation of strategy formation in CPEs (Tan, 1996). This is dramatically different from the Western context under which private businesses enjoy the freedom of pursuing business strategies on their own. One widely documented consequence of the current ideological environment is networking (Boisot and Child, 1996; Park and Luo, 2001; Wank, 1996; Xin and Pearce, 1996). CPEs engage more in networking than CSEs in order to offset the disadvantage derived from the environment (Park and Luo, 2001; Xin and Pearce, 1996). In particular, CPEs mainly focus on weaving networks with government officials so as to obtain political protection and psychological security (Park and Luo, 2001). In addition, a discriminative financing environment and administrative barriers to market entry lead to circumstances that major strategic choices of the CPEs are constrained into service, trading and manufacturing industries with low financial and technological requirements (Gao, 2001). Furthermore, CPEs have to take a proactive and risky decision-making approach for the purpose of securing scarce resources under the current discriminative environment (Tan, 1996). The primacy of CPC and its related ideology have also impacted the role of individuals in the strategic decision process. It has been observed that a sure route to power and privilege in contemporary China is to secure a position in the party (Porter, 1996). The consequence is that the political objective of individuals will sometimes distort the rationality of strategy formation (Porter, 1996).

However, the relationship between the ideological environment and strategy formation in CPEs is far from convincing. Some studies suggest that it is the perception of CPEs towards regulation environment matter, rather than the actual environment (Tan, 2001). For instance, even though uncertainty and discrimination against the private sector do

exist, it has been found that CPEs still perceive the current regulatory environment more positively than the state managers (Tan, 2001). As a consequence, CPEs would like to take a more proactive strategic approach. It seems that current explanations regarding the impact of regulatory environment on strategy formation are very puzzling. Does a perceived regulatory environment or an actual environment dominate strategy formation? What are the relevant impacts on strategy formation? All these questions need to be further investigated.

#### **2.4.2.2 Local governments and strategy formation**

As major implementers of the CPC's central political ideology and administrators of local private enterprises, local governments<sup>1</sup> play dramatically different roles compared with their counterparts in the West (Boisot and Child, 1996).

Chinese transitional economy has been characterised as gradualism with extensive government intervention (Walder, 1995). In particular, local governments in China have been regarded as a key influencing factor to the success of economic growth (Boisot and Child, 1996; Oi, 1995; Wank, 1995). It is argued that Chinese local governments are not only adopting the roles of administrators but also the roles of entrepreneurs who have direct economic interests and responsibilities for local companies (Oi, 1995). The major reason leading to the dual roles of local governments mainly attributes to the fiscal and tax reform in the mid-1980s and mid-1990s (Oi, 1995; Walder, 1995). The traditional Chinese fiscal system was centralised with little autonomy at provincial and municipal levels (Tong, 1989; Walder, 1995). The lower levels of governments received annual budgets from the levels above and the budgetary surplus would be appropriated by the higher levels. After the fiscal reform in the mid-1980s, local governments can retain the residual after sharing a certain amount of local revenue with the central government (Tong, 1989; Walder, 1995). The fiscal and tax reform in the mid-1990s further strengthened the autonomy of local governments by clarifying their taxing rights towards local enterprises. The whole objectives of these fiscal reforms were to 'make localities fiscally self-sufficient, to reduce the central state's own fiscal burden, and to provide incentives for local authorities to promote economic develop-

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<sup>1</sup>Here local governments mean any level of jurisdiction below the central government, such as provincial government, municipal government etc. For a detailed understanding of Chinese jurisdiction, please see Walder (1995).

ment' (Oi, 1992, pp. 102-103). As a consequence, local governments gain strong financial incentives to motivate growth in the local economy (Boisot and Child, 1996; Nee, 1992; Oi, 1995; Walder, 1995).

Local governments control enormous resources under their jurisdiction, and even some resources outside their administrative domain (Oi, 1992). Firstly, as Walder (1995) documented in China there were more than 800,000 government jurisdictions that controlled a total of 1.2 million public industrial enterprises in 1993, among which the central government only owned a minority. A large amount of state-owned resources were under the direct supervision of local officials. Secondly, local governments have the channels to key inputs such as scarce raw materials, bank loans and foreign trade. In addition, they can also profit by executing discretionary regulation over fines, licences, fees and local taxes (Oi, 1995; Wank, 1995). Most importantly, local governments are becoming key informants for intangible resources such as market information, business contacts etc. by using their extensive networks (Oi, 1995).

The intervention of local governments have exerted strong influence on the local economy. Some researchers propose that government intervention is positive because it facilitates local economic growth by providing support to local enterprises which operate under a weak market structure (Nee, 1992; Oi, 1995; Wank, 1995). Moreover, local governments can finance weak sectors by profiting from rich companies (Oi, 1995). However, negative consequences are also prevalent in China (Liu, 1992; Oi, 1995). The most distinguished problem is administrative segmentation derived from local protectionism (Oi, 1995). The local protectionism has hindered further development of enterprises and the economy from a national level.

Patron-client relationship is a distinguished phenomenon documented between local governments and local private enterprises (Wank, 1995, 1999). Oi (1992, 1995) also provides a similar explanation and terms it as 'local corporatism'. The patron-client relationship in the private sector is explained as the following:

'Entrepreneurial connection with the bureaucracy create clientelist networks that are neither market relationships nor formal command-economy relationships...They are patron-client relations between actors who control asymmetrical resources and forge alliances for mutual benefit... The al-

liances accordingly are embedded in personal ties between entrepreneurs and officials who know and trust each other'. (Wank, 1995, pp. 69-70)

The origination of the patron-client relationship in the private sector is deeply rooted in fiscal institutional change (Nee, 1992; Oi, 1995). Fiscal reforms not only bring varied economic goals to governments at different levels but also lead to a mutual interdependence between local governments and local enterprises (Boisot and Child, 1996; Walder, 1995). CPEs are extremely vulnerable compared with the public sector due to ideological discrimination in China. Thus it is more likely for private entrepreneurs to form local political alliances so as to obtain political support and other economic benefits (Park and Luo, 2001; Xin and Pearce, 1996). From the perspective of local officials, Nee (1992) notices that local governments are increasingly relying on revenue produced by CPEs. Moreover, local officials also gain individual benefits from the patron-client relationship. It is vividly documented in cases in *Wenzhou* and *Xiamen* areas (Liu, 1992; Wank, 1999). The personal gains include the increase of official's income and certain power shares provided by private enterprises (Liu, 1992).

The degree of intervention by local governments on organisational strategy behaviours varies, depending on many factors. At first, it is suggested that ownership type can provide more valid insights into the relationship between governments and strategy making (Tan, 2001). It has been observed that investment decision making in CSEs are strongly intervened by different levels of governments, especially at the approval stage of decision process (Child, 1994; Child and Yuan, 1996). Secondly, it is argued that lower hierarchical officials will be more involved in the management of local firms (Walder, 1995). Walder (1995) finds that at town level, local officials had far more intimate knowledge and involvement in local town and village enterprises compared with city level officials. However, whether this result can be applied to CPEs is still unknown. Thirdly, the influence of governments on strategy making is also conditional on organisational capabilities. Selective targeting is a kind of strategy for governments to decide how to allocate resources and provide information (Oi, 1995). The resources will go to companies who can generate maximum benefit. Wank (1995) proposes that organisational size will mediate the relationship between local officials and private enterprises. The larger sized private enterprises will generally have stronger relationships with governments than household small private businesses (Wank, 1995).

Government intervention is a distinguished phenomenon in China in contrast with the West. Extant literature has intensively explored the role of governments on strategy formation in the CSEs. It is also particularly important to understand the role of governments in strategic formation in CPEs. The current studies have conducted some explorations. For instance, the patron-client relationship has been documented in *Wenzhou*, *Xiamen* and *Chengdu* areas (Bruun, 1993; Liu, 1992; Wank, 1996). However, how this patron-client relationship affects strategy formation behaviours in CPEs lacks further development at both theoretical and empirical levels.

### **2.4.3 Chinese culture and strategy formation**

#### **2.4.3.1 Confucian ideology and strategy formation**

It is widely acknowledged that managerial behaviour is influenced by culture, which comprises multiple layers such as national and organisational cultures (Child, 1994; Gamble and Gibson, 1999; Redding, 1996). It is also suggested that national culture accounts for a significant proportion of organisational and personal value (Hofstede, 2001). So far, extensive studies have been conducted to understand Chinese culture (Child, 1994; Hofstede, 2001; Littrell, 2002). Among them, Confucianism is generally believed as a prevalent social philosophy in the Chinese society (Hofstede, 2001). Several features have been highlighted (Child, 1994; Hofstede, 2001; Littrell, 2002; Porter, 1996; Redding, 1996), including respect for age, authority and hierarchy; high power distance; strong family interests; orientation towards collectivism; valuing harmony; the importance of relationships or *guanxi* etc.

These cultural elements are found to have essential impacts on organisational behaviours (Redding, 1996). Redding (1996) proposes that paternalism, clear hierarchy, mutual vertical obligations, family atmosphere, benevolent autocracy and repression of organisational talent are distinguishing organisational phenomena in Taiwanese and Hongkongnese private companies. These cultural elements also exert strong influence on strategy formation (Child, 1994; Gamble and Gibson, 1999; Porter, 1996; Redding, 1996). Firstly, paternalism and high-power distance supports authoritative and hierarchical relations. As a result, strategy formation is mostly autocratic and centralised (Child, 1994; Redding, 1996). Some studies argue that this authoritarian style of strat-

egy formation may be detrimental when organisations become larger and more complex (Littrell, 2002). Secondly, respect for authority calls for submissive behaviours from subordinates in order to show loyalty to their leaders (Littrell, 2002). To a certain degree the requirement for loyalty and respect will hinder conflicting ideas from different perspectives to emerge (Child, 1994). Gamble and Gibson (1999) document that executives even distort financial information in order to ‘satisfy the boss’ (Gamble and Gibson, 1999, p. 228). Rationality during the strategy making process could be jeopardized by this culture. Thirdly, emphasis on harmony and collectivism also cause maximum avoidance of conflict. If a situation is too embarrassing, avoiding conflict will lead to an incomplete decision or no decision at all, where one is clearly needed (Porter, 1996). Avoidance of conflict also results in group thinking, which will hinder constructive contribution to problem solving or idea generation (Child, 1994). Fourthly, strong family interests have a great tendency to confine strategy formation in the family circle; professional elites would be impinged. This will greatly hinder the professionalism, and therefore harm the rationality of strategy formation (Porter, 1996; Redding, 1996). In general, these cultural impacts have been interpreted as having negative impacts on strategic formation behaviours (Gamble and Gibson, 1999; Porter, 1996; Redding, 1996). Considering the impressive performance that has been achieved by CPEs, it is extremely questionable whether or not extant studies have properly evaluated the function of national culture on strategy formation. The positive effect of national culture may be a substantial factor for effective strategy formation in the Chinese context.

#### **2.4.3.2 *Guanxi* in particular**

Among all the characters of Confucianism in China, one widely documented cultural phenomenon is Chinese *guanxi*. In Chinese practice, there are diverse understandings and ambivalent social attitudes towards *guanxi* (Mei-hui Yang, 1994). One widely cited definition is related to its ‘instrumental’ (Mei-hui Yang, 1994, p. 67) or ‘utilitarian’ (Park and Luo, 2001, p. 457) nature. *Guanxi* aims to exchange favours and obtain personal gains. For instance, Mei-hui Yang (1994, p.6) defines *guanxi* as ‘the exchange of gifts, favours, and banquets; the cultivation of personal relationships and networks of mutual dependence; the manufacturing of obligation and indebtedness’. Park and Luo (2001, p.455) define *guanxi* as ‘a web of connections to secure favours in personal

and organisational relations'. There also exists rich Chinese dialects to describe this aspect of *guanxi*, such as *zou houmen* (go through the back door) and *la guanxi* (pull social relationships). *Guanxi* can also be defined from an emotional perspective (Mei-hui Yang, 1994). Good *guanxi* contains *renqing* (human feelings or sentiment) which naturally exists in family and kinship relationships (Mei-hui Yang, 1994). In general, the understanding and definitions towards *guanxi* are ambiguous, as Wank (1999, p. 77) notes 'some maintain that *guanxi* is inherently instrumental, whereas others view it as the aforementioned continuum bounded by emotion and instrumentalism'. This combination of the emotional side of *guanxi* with its utilitarian side leads to ambivalent attitudes towards *guanxi* in the Chinese society. However, even *guanxi* does carry some negative meaning, it is a prevalent social practice which penetrates into every aspect of Chinese life.

### **The origination of *guanxi***

The prevalence of *guanxi* in contemporary mainland China is said to be rooted in Chinese culture, history and the economic system (Mei-hui Yang, 1994; Park and Luo, 2001; Xin and Pearce, 1996). The most popular account is that *guanxi* originated from Confucianism (Mei-hui Yang, 1994; Park and Luo, 2001). Due to the prevalence of Confucius value, the Chinese society is strongly oriented towards collectivism and societal harmony (Child, 1994). As a cultural consequence, *guanxi* becomes an important mechanism to achieve these functions (Park and Luo, 2001; Zhao and Aram, 1995). The second account derives from the condemnation towards the cultural revolution. People have to rely on personal connections due to the breakdown of social order and institutional systems caused by this ten-year chaos (Mei-hui Yang, 1994). Therefore *guanxi* upsurged after 1978. The third explanation is based on economic perspective. Transitional economy has generated a chaotic market order and an uncertain regulatory environment. Therefore, it is an economic way for individuals or organisations to deal with transactions via personal networking (Boisot and Child, 1996; Park and Luo, 2001; Xin and Pearce, 1996).

### **The scope of *guanxi***

*Guanxi* has its extensive scope, as described by Mei-hui Yang (1994, pp. 111-118): ‘The range of *guanxi* bases in urban society may be subsumed under the following categories: family and kinship, neighbours and native-place ties, non-kin relations of equivalent status, and non-kin superior-subordinate relations’. Park and Luo (2001) construct *guanxi* from personal level into inter-organisational networks. They argue that inter-organisational *guanxi* is built upon personal networks. When personal networks are dedicated to organisational use, *guanxi* will become a kind of organisational asset. They further delineate the scope of inter-organisational *guanxi* which contains horizontal networks, such as with customers, suppliers etc., and vertical networks that mainly refer to the relationship with regulatory authorities (Park and Luo, 2001). Because Chinese transitional economy is characterised with high intervention of governments, *guanxi* with government officials presents particular importance for organisations (Boisot and Child, 1996).

### **The art of *guanxi* building**

*Guanxi* building is described as a kind of Chinese art (Mei-hui Yang, 1994; Wank, 1996). Based on observations in *Xiamen* areas, Wank (1996) suggests two major approaches for enlarging and strengthening *guanxi*. The first approach is from individual’s endowment. Born into a cadre’s family, military family or business family is extremely valuable for inheriting strong and durable *guanxi*. Another approach is to enlarge and enhance *guanxi* via individual efforts. *Guanxi* can be saved from prior political experiences, prior schooling, prior jobs etc. Two ways of enhancing *guanxi* are vividly documented, they comprise *qingke* & *songli* (throwing banquets and giving gifts) (Mei-hui Yang, 1994). Gift giving is a complicated social skill which requires high levels of interpersonal abilities so as to properly judge the issues about the type of gifts, place and time to give gifts etc. In addition, inviting important contacts to varied banquets is another popular means to strengthen personal ties. For example, cadres can be invited to attend the wedding party of an entrepreneur’s child (Wank, 1996). However, gift giving and banqueting are not the only two ways to improve *guanxi*. Sending *renqing* can also have strong emotional influence on *guanxi* building,

such as introducing a cadre to prospective mates so as to meet sentimental needs of key contacts (Wank, 1996).

### **Social trust and *guanxi***

Boisot and Child (1996, p. 613) argue that ‘the Chinese system of networked transactions, however, is relatively uncodified, and it is based on trust and longstanding personal connections’. Wank (1999) regards that social trust is an essential facet of *guanxi*; and it will facilitate predictability in mutual interactions. Social trust is further suggested as a key mechanism which makes *guanxi* work (Kao, 1996; Redding, 1996). From another aspect, Wong (1996) propose that *guanxi* is also a critical factor to maintain high business trust. It seems that *guanxi* and trust are two intertwined concepts which recur in Chinese literature (Mei-hui Yang, 1994; Redding, 1996; Wank, 1995, 1996, 1999). Some studies even use these two words interchangeably.

Wong (1996) argues that trust in the Chinese society builds on individuals rather than systems. He (1996, p. 18) argues that ‘(in) Hongkong, it is clear that system trust has been solidly established. Yet this has not diminished the vigour of personal trust in business life. Particularistic ties still prevail, with little sign of being superseded by universalistic orientations’. Particularistic and universalistic ties are originated from Max Weber (1951). Particularistic trust is rooted in the personal and familial relationship, whereas universalistic trust is grounded on the impersonal system (Weber, 1951). Fukuyama (1995) further points out that the Chinese will have difficulty to move to universalistic trust because of the prevalence of Confucian familism. It is evidenced that family-run has been a widely documented phenomenon in contemporary CPEs in extant Chinese literature (Gao, 2001). Nevertheless, how trust functions in strategy formation processes is seldom discussed in extant Chinese studies.

### ***Guanxi* on strategy formation**

*Guanxi* has exerted enormous influence on organisational behaviours (Boisot and Child, 1996; Brown and Easterby-Smith, 1995; Brown and Qi, 2001; Nee, 1992; Park and Luo, 2001; Peng and Heath, 1996; Redding, 1996; Tsang, 2002). Boisot and Child (1996) propose that the Chinese economic system in the transitional stage should be

labelled as network capitalism, under which the network is a kind of transaction arrangement instead of market and hierarchy. Correspondingly, Peng and Heath (1996) suggest that a network-based strategy is a dominant strategic choice for organisational growth in transitional economies, such as in China. It is further argued that CPEs will rely more on *guanxi* than the public sector due to their vulnerable social status (Park and Luo, 2001; Xin and Pearce, 1996). Patron-client relationship has been intensively documented in the literature Wank (1996). Brown and Qi (2001) also find *guanxi* exists in every element of strategy process in CPEs. Furthermore, studies have also generally suggested that entrepreneur's *guanxi* activities are positively related to venture performance (Kao, 1996; Lee and Tsang, 2001; Tsang, 1998; Zhao and Aram, 1995). For instance, *guanxi* is regarded as a valuable entrepreneurial tool to bridge gaps in resources between unlinked organisations (Lee and Tsang, 2001; Park and Luo, 2001; Zhao and Aram, 1995).

*Guanxi*'s function on individual behaviour has been vividly documented by Mei-hui Yang (1994, pp. 91-99). One interesting phenomenon mentioned in the literature is the effects of supervisor-subordinate *guanxi* on supervisory decisions (Law et al., 2000). It has been found that supervisors have a higher tendency to allocate opportunities such as bonuses and promotions to subordinates who have good *guanxi* with them (Law et al., 2000). Therefore it can be assumed that achieving good *guanxi* with Chinese leaders may be an important objective of Chinese employees during strategy formation. Similarly, Porter (1996) has argued that it is difficult to achieve rational strategy formation in the Chinese context due to existence of multiple personal objectives, such as *guanxi*. Therefore, to apply theoretical models of strategy formation developed from the West directly to the Chinese context is extremely unrealistic (Porter, 1996).

However these studies lack further development, for instance, how *guanxi* expresses itself in detail in the whole strategy formation stays as an unknown area. Although some studies have explained the function of *guanxi* in collecting information and obtaining resources etc. (Liu, 1992; Wank, 1996), a more complete picture is still demanded, and more details need to be filled in in order to understand richness and dynamics of *guanxi* during strategy formation in CPEs.

#### **2.4.4 Chinese entrepreneurs and strategy formation**

In Western literature, it has been recognised that the utilisation of the term ‘entrepreneur’ is extremely problematic because of the presence of disparate definitions (Low and Macmillan, 1988). Schumpeter (1934) is among the first to regard entrepreneurs as a fundamental force to economic development in our society. Schumpeter (1934) advocates that the very essence of entrepreneurship is the carrying out of new combinations; the individuals who carry out these new combinations are called entrepreneurs. After his work diversified definitions have contributed to explain and identify entrepreneurs (Carland et al., 1984; Hartman, 1959; Stevenson and Jarillo, 1990). With the increasing relevance of small businesses to the economy, entrepreneurs are often equated with small business creators or owners. However, many small business owners never intend to grow their business. Thus, Carland et al. (1984) suggest that entrepreneurs are individuals who establish and manage businesses for the principal purpose of profit and growth. Recently, these concepts have been challenged by researchers who contend that big and established organisations can also act entrepreneurially (Stevenson and Jarillo, 1990). The literature on corporate entrepreneurship suggests that entrepreneurs will not necessarily be the owners or founders of enterprises; they can be any employees inside organisations who show innovative capabilities (Stevenson and Jarillo, 1990).

In spite of the existence of diversified understandings towards entrepreneurs, it has been commonly recognised that the transitional economy has brought a large amount of market opportunities which generate strong entrepreneurship to answer market deficiencies in China (Tan, 2001). The booming of CPEs is seen as major evidence of Chinese entrepreneurship (Tsang, 1994). As a consequence Chinese studies frequently associate Chinese entrepreneurs with CPEs (Holt, 1997; Tan, 1996), even though this association is extremely questionable in Western literature.

In current Chinese research, Weidenbaum and Hughes (1996) provide an interesting generalisation about behaviours of Chinese entrepreneurs in Southeast Asia, as stated below:

‘Most overseas Chinese take a low profile in the commercial world and shy away from publicity...Ethnic Chinese family firms rely on strict, cen-

tralised control and informal transactions to minimize company bureaucracy and paperwork... The successful overseas Chinese business family operates through a network of enterprises rather than the unitary company (e.g. Ford, Wal-Mart) characteristic of US family firms...Overseas Chinese business leaders utilise a management style that is more informal and intuitive than that practiced in a typical Western corporation...' (Weidenbaum and Hughes, 1996, pp. 576-577).

These generalisations have supplied useful and general hints for knowing Chinese entrepreneurs and their way of running businesses. Further studies have supplied more specific knowledge about the value system and background of Chinese entrepreneurs etc. (Holt, 1997; Lee and Tsang, 2001; Tan, 2001; Wong, 1996; Zhou and Burns, 2000). Some scholars focus on investigating the personal value of Chinese entrepreneurs and its related impacts on strategy formation (Gamble and Gibson, 1999; Holt, 1997; Tan, 2002a; Zhou and Burns, 2000). It is a widely accepted assumption that national culture will be an essential determinant of personal value systems (Gamble and Gibson, 1999; Hofstede, 2001). Thus it is expected that entrepreneurs under diverse cultural contexts will show varied value orientation. However Holt (1997) finds, based on his comparative studies, similarities exist between Chinese entrepreneurs and American entrepreneurs, even allowing for the existence of dramatic difference in the national value system and political ideology. Chinese entrepreneurs demonstrate a high degree of independence, self determination and uncertainty taking, which are dramatically derivative from Confucian ideology (Holt, 1997). Tan (2002a) further confirms that despite cultural and national differences, mainland Chinese entrepreneurs share similar strategic orientation with their Western counterparts, such as being innovative, proactive and aggressive. Therefore it seems that entrepreneur is a universal concept. Nonetheless these conclusions are suggested to be taken carefully due to variance in understanding the value terminology utilised in the research (Holt, 1997). Controversially some studies find that Chinese entrepreneurs do share a distinguished identity based on their personal value systems (Zhou and Burns, 2000). For example, Chinese entrepreneurs value the Confucian ethic and family attitudes (Zhou and Burns, 2000); praise trustworthiness in business (Wong, 1996); believe in integrity; focus on long term planning; value thrifty etc (Redding, 1996; Zhou and Burns, 2000). Redding (1996) documents the phenomenon of distrust of Chinese entrepreneurs towards

their managers. This distrust will hinder professionalism during strategy formation. From the above studies, it is extremely puzzling about whether or not personal values of mainland Chinese entrepreneurs differ from entrepreneurs in other contexts. If the national culture such as Confucianism is a decisive factor for explanation of personal value, why are mainland Chinese entrepreneurs in such sharp contrast with state-owned managers (Holt, 1997)? So far, current literature has not given clear answers to these questions.

In addition to research on personal value system, some empirical studies observe the background of Chinese entrepreneurs (Wank, 1999; Zhou and Burns, 2000). Wank (1999) finds three types of backgrounds in the *Xiamen* area. The first type of entrepreneurs are called speculators, who previously worked in unlicensed commercial activities including smuggler, peddler, artisan and scavenger. Most of them started their businesses in the late 1970s and early 1980s (Wank, 1999). The second type is blue-collar workers who previously had manual labour jobs. The onset of entrepreneurship of this type is roughly in the middle 1980s (Wank, 1999). The third type is functionaries who came from white-collar backgrounds and possessed higher social status than speculators and workers. Most of them were engaged in private businesses in the late 1980s after the sanction of the Private Enterprise Act (Wank, 1999). Zhou and Burns (2000) further confirm that in the early 1990s many bureaucrats or official cadres set up their own businesses and became entrepreneurs. Interestingly, some further discussions have probed into the function of backgrounds in *guanxi* building (Wank, 1999). Wank (1999) contends that the entrepreneur's personal background can be a source of competitive advantage because it will throw enormous influence on *guanxi* building. He (1999) suggests three entrepreneurial paths to the accumulation of social capital that will be converted into economic assets in the future. These different entrepreneurial paths present variation in *guanxi* types, *guanxi* endowments, *guanxi* savings and *guanxi* utilisation (Wank, 1999). For instance, functionaries generally enjoy more advantageous *guanxi* capital than those entrepreneurs who are originally speculators or workers (Wank, 1999).

Although there is a strong recognition of existence of the Chinese entrepreneurial spirit, studies about Chinese entrepreneurs and their strategy formation behaviours are surprisingly few (Tan, 2002a). For instance, as Western scholars are bewildered by the connotation of entrepreneurs, can we generally associate the entrepreneurs with

CPEs? Along with the influence on *guanxi* capital, are there any other impacts of personal background, such as their career experience and education, on strategy formation (Tan, 1996)? These questions require more empirical studies in the Chinese private context.

## 2.5 Summary

This chapter starts to examine major research divisions in the area of strategy process. The discussion partly purports to identify the focal theoretical area upon which this PhD study is mainly based. In general, this research is interested in exploring strategy formation, which lies mainly in the early stage of strategy process and exerts enormous impact on the final contents of strategy. The chapter then turns to evaluate the extant literature in strategy formation in particular. Diversified themes regarding strategy formation are extensively examined so as to gain a deep understanding about this focal theoretical area. Furthermore, the discussion is enriched and deepened by embedding strategy formation into the particular Chinese private context. This is also a response to an increasing call for context sensitive research which suggests strategy formation have to be understood in their particular social and cultural context (Editorial, 2005; Pettigrew, 1992).

As mentioned at the beginning of this chapter the function of the literature review is multifold. The focal theoretical area is identified and theoretical sensitivity of the researcher is enhanced by reviewing present knowledge in the area of strategy formation. The most important function of the literature is to sense and develop the general research question, which bears significant meanings on theoretical and empirical levels. From the above literature review, it has been identified that knowledge about strategy formation in CPEs is extremely limited and described as ‘handful’ (Tan, 2002a, p. 105). This dissatisfaction is also shared by several scholars who contend that current Chinese research lacks detailed knowledge about managerial process inside Chinese organisations (Brown and Easterby-Smith, 1995; White, 2001). Therefore, the general research question of this study is devoted to explore:

How do Chinese Private Enterprises form their strategies?

Nonetheless, the specific sub-research questions are not predetermined; instead, they are elaborated at a later stage of the research and will be explained further in Chapter 5.

This chapter also partly informs the choice of grounded theory as a major research methodology, given the fact that strategy formation in CPEs is a fundamentally new area. A grounded approach will potentially assist to generate more localised, holistic and valid knowledge. The next chapter will focus on methodological issues and provide more detailed explanations for the choice of the research approach.

# Chapter 3

## RESEARCH METHODOLOGY

### 3.1 Introduction

This chapter focuses on methodological issues related to this study. Firstly, research paradigm is explored so as to clarify the philosophical stance followed by this study. In general, this study is interpretive, inductive and qualitative. Furthermore, grounded theory is utilised as the major methodology to guide data analysis and data collection; the rationale for this choice is provided in the second section. Sections three and four are devoted to detailed explanations of specific techniques utilised for data collection and data analysis. In the final section I reflect on the issue of conducting grounded theory research in the Chinese context. Some suggestions are given to scholars in order for them to shorten their learning curve when conducting grounded theory in the Chinese context.

### 3.2 Research Paradigms

Paradigm refers to ‘people’s philosophies and assumptions about the world and the nature of knowledge; in this context, about how research should be conducted’ (Hussey and Hussey, 1997, p. 47). Guba and Lincoln (1994) argue that the questions of methodology are secondary to questions of the research paradigm. Easterby-Smith et al. (1991, 2002) also highlight the significance of understanding the research paradigm which will significantly help researchers to clarify research methodologies. They also

argue that failure to consider these philosophical issues will seriously affect the quality of management studies (Easterby-Smith et al., 1991, 2002). Thus the issue of research paradigm is investigated before the identification of research methodology in this study.

In current social science research there are two commonly used but dramatically different paradigms (Easterby-Smith et al., 1991; Hussey and Hussey, 1997). On one side of the spectrum lies phenomenological paradigm, on the other is positivist paradigm (Easterby-Smith et al., 1991; Hussey and Hussey, 1997). There are also alternative and more common terminologies to represent these paradigms such as 'qualitative' and 'quantitative' (Hussey and Hussey, 1997, p. 47). In addition, some scholars 'prefer to use the term interpretivist rather than phenomenological because it suggests a broader philosophical perspective and prevents confusion with a methodology known as phenomenology' (Hussey and Hussey, 1997, p. 47). Therefore in this study, I use the terminology of 'interpretive' and 'phenomenological' interchangeably, which generally refers to a subjectivist approach to social science (Burrell and Morgan, 1979).

Easterby-Smith et al. (1991, p. 27) have provided a brief summary showing key features of positivist and phenomenological paradigms (see Table 3.1):

Table 3.1: Key features of positivist and phenomenological paradigms

	<b>Positivist paradigm</b>	<b>Phenomenological paradigm</b>
<b>Basic beliefs</b>	<ul style="list-style-type: none"> <li>• The world is external and objective</li> <li>• Observer is independent</li> <li>• Science is value-free</li> </ul>	<ul style="list-style-type: none"> <li>• The world is socially constructed and subjective</li> <li>• Observer is part of what observed</li> <li>• Science is driven by human interests</li> </ul>
<b>Researcher should</b>	<ul style="list-style-type: none"> <li>• Focus on facts</li> <li>• Look for causality and fundamental laws</li> <li>• Reduce phenomena to simplest elements</li> <li>• Formulate hypotheses and then test them</li> </ul>	<ul style="list-style-type: none"> <li>• Focus on meanings</li> <li>• Try to understand what is happening</li> <li>• Look at the totality of each situation</li> <li>• Develop ideas through induction from data</li> </ul>
<b>Preferred methods include</b>	<ul style="list-style-type: none"> <li>• Operationalising concepts so that they can be measured</li> <li>• Taking large samples</li> </ul>	<ul style="list-style-type: none"> <li>• Using multiple methods to establish different views of phenomena</li> <li>• Small samples investigated in depth or over time</li> </ul>

Source: Adapted from Easterby-Smith et al., 1991, p. 27

Guba and Lincoln (1994) differentiate the paradigms from ontological, epistemological and methodological levels. The first level is about ontological assumption that refers to basic beliefs about the social world. Positivists argue that the social world, same as the natural world, is ‘out there reality’ and is hard, tangible and external to individuals; whereas the interpretive researchers argue that the social world is the product of the individual’s mind and is a socially constructed reality by individuals (Burrell and Morgan, 1979; Guba and Lincoln, 1994). Therefore, from the interpretive perspective, ‘the reality is in the form of multiple, intangible mental constructions, socially and experientially based, local and specific in nature, and dependent for their form and content on the individual persons or groups holding the constructions’ (Guba

and Lincoln, 1994, pp. 110-111). The second level is concerned with epistemological assumption that answers 'the best ways of inquiring into the nature of the world' (Easterby-Smith et al., 2002, p. 31). In other words, epistemology explores the question about the relationship between researchers and investigated phenomena (Burrell and Morgan, 1979; Guba and Lincoln, 1994). The epistemological stance is predetermined by the ontological stance of researchers (Burrell and Morgan, 1979; Guba and Lincoln, 1994). For instance, if researchers assume that their investigated phenomena are socially constructed realities, then in order to understand this construction, researchers and the researched have to interact with each other in order to reconstruct this reality. However, positivists believe in an objective and value-free stance towards the phenomena and would like to adopt an independent position when they investigate the social world. The third level relates to the methodological assumption that answers the question about 'techniques used to enquire into a specific situation' (Easterby-Smith et al., 2002, p. 31). Again, the methodological stance is predetermined by the ontological and epistemological stances of researchers (Burrell and Morgan, 1979; Guba and Lincoln, 1994). If researchers choose the positivistic perspective and believe that the social world is 'out there reality', then efforts will be made to analyse relationships between different variables and search for universal laws that will explain the reality. Thus, verification or falsification of hypotheses and quantitative methods will become a most suitable methodology for investigation (Burrell and Morgan, 1979; Guba and Lincoln, 1994). However, if researchers adopt the interpretive perspective they will be concerned with how individuals create, modify and interpret the social world. Thus researchers have to enter into the site and construct the meaning of the situation from the participants' points of view. The focus will be on theory generation rather than hypothesis testing. Therefore, qualitative methodology and inductive approach will be mainly utilised (Guba and Lincoln, 1994).

It has been recognised that these two paradigms express general polarisations of research philosophy and there exists multiple philosophical stances which lie in the middle. It has also been argued that even the distinction between these two paradigms is very clear at the philosophical level, when it comes to the choice of specific methods, the distinction breaks down (Easterby-Smith et al., 2002). Therefore, the discussion above only represents a simplification of complicated philosophical issues, which assists this study to clarify the basic ontological, epistemological and methodological

assumptions before embarking on the empirical investigation. However, this study has no intention to focus upon exploring deep meanings of diversified philosophical paradigms which are discussed and debated by many philosophers.

Relating to the choice of paradigms, Easterby-Smith et al. (2002, p. 42) have supplied a list of strengths and weaknesses of two paradigms, which are summarised in the table 3.2:

Table 3.2: The strengths and weaknesses of interpretive and positivistic paradigms

	<b>Strengths</b>	<b>Weaknesses</b>
<b>Interpretive paradigm</b>	<ul style="list-style-type: none"> <li>• Effective in understanding how change processes over time</li> <li>• Effective in understanding people's meanings</li> <li>• Effective in adjusting to new issues and ideas as they emerge</li> <li>• Contributive to the evolution of new theories</li> <li>• Data as natural rather than artificial</li> </ul>	<ul style="list-style-type: none"> <li>• Time consuming in data collection</li> <li>• The analysis and interpretation of data may be very difficult</li> <li>• Analysis depending on the intimate and tacit knowledge of the researchers</li> <li>• People tend to give low credibility to studies due to 'subjective' opinions</li> </ul>
<b>Positivistic paradigm</b>	<ul style="list-style-type: none"> <li>• Wide coverage of the rang of situations</li> <li>• Fast and economical</li> <li>• Considerable relevance to the policy decisions</li> </ul>	<ul style="list-style-type: none"> <li>• Inflexible, artificial</li> <li>• Ineffective in understanding processes or the significance that people attach to actions</li> <li>• Not helpful in generating theories</li> </ul>

Sources: Summarised from Easterby-Smith et al. 2002, p. 42

This study generally adopts the interpretive paradigm and focuses upon understanding meanings from the participants' points of view. The reasons for this choice are illustrated as follows: The principal explanation goes to the recognition that strategy formation processes are complex human behavioural processes embedded into sophisticated political and cultural contexts (Pettigrew, 1985). Ontologically, I believe that

this phenomenon is a socially constructed reality the meaning of which has to be understood from members who are involved in those situations. This belief has been emphasised by many strategy researchers; some scholars even argue:

‘Strategy is in a state of crisis. For some, the crisis is a consequence of the grip of the positivism of industrial economics on both strategy research and the major outlets for publication. The critique is that such a paradigmatic stance is able to reveal little about what it is to be a strategist or indeed the praxis of strategy.’ (McKiernan and Carter, 2004, p.3)

In addition, many researchers propose that positivism is not effective in understanding processes; social processes could be usefully studied within an interpretive paradigm, which is explicitly designed to capture complex and dynamic social phenomena (Denzin and Lincoln, 1998; Easterby-Smith et al., 1991, 2002; Orlikowski and Baroudi, 1991). Because this study is naturally process-oriented, the above arguments give further support to follow the interpretive paradigm in order to capture rich meanings during strategy formation processes. The final consideration relates to the current status of Chinese management research. The interpretive paradigm could be potentially valuable for Chinese scholars to gain fresh insights and new theoretical ideas on management issues. Some researchers have observed that existing Chinese management studies have mainly focused on the change of macro environment whilst leaving many micro managerial process issues largely unknown (Brown and Easterby-Smith, 1995; White, 2000). Consequently, this will lead to a heavy reliance on extant Western literature to construct theoretical starting points, which will possibly be inappropriate in Chinese specific economic, social, political and cultural settings. However, interpretivist focusing on theory generation can give Chinese scholars great freedom to theorise researched subjects in terms of importance to the Chinese people.

Despite the advantage the interpretive paradigm gives to this study, its disadvantage is also obvious, which can be seen from the Table 3.2. Its most salient problem relates to how to analyse and interpret the qualitative data collected from the field work so as to generate more credible knowledge. As one way to tackle this issue, Strauss’s approach of grounded theory is selected as a major methodology to guide the data analysis and data collection. The reason for this choice is given in the following section.

## **3.3 Choice of Grounded Theory Methodology**

### **3.3.1 The development of grounded theory**

Grounded theory is a methodology initially developed by two sociologists, Barney Glaser and Anselm Strauss in *The Discovery of Grounded Theory* (1967). Interestingly, the two originators come from totally different research backgrounds. Barney Glaser received his education in Columbia University and is influenced by quantitative methods; while Anselm Strauss graduated from Chicago University with a strong qualitative research tradition (Parker and Roffey, 1997). However, they have a common dissatisfaction with the nature of theorising that prevails in sociology and share the same belief that theory needs to be intimately connected with data (Locke, 2001). Thus grounded theory is discovered aiming to close embarrassing gaps between theory and empirical research (Glaser and Strauss, 1967). The emergent theory should be generated and developed through constant interplay with data collected during the research process (Strauss and Corbin, 1998, p. 275). Therefore the important feature of grounded theory lies in its fitness which is further explained in the 'Discovery' book: 'A grounded theory that is faithful to the everyday realities of a substantive area is one that has been carefully induced from diverse data. Only in this way will the theory be closely related to the daily realities (what is really going on) of substantive areas, and so be highly applicable to dealing with them' (Glaser and Strauss, 1967, pp.238-239).

As for the philosophical stance of grounded theory, it is frequently articulated that grounded theory is originated from symbolic interactionism (Locke, 2001; Parker and Roffey, 1997). Symbolic interactionism, which focuses on how individuals interact and construct the meaning of social reality, shares the same basic assumptions with interpretive perspective and is regarded as a major branch of interpretive paradigm (Burrell and Morgan, 1979; Parker and Roffey, 1997). Grounded theory is therefore fundamentally interpretive and focuses on understanding the meaning of behaviours from the participant's point of view (Locke, 2001; Parker and Roffey, 1997).

Since the origination of the 'Discovery' book in 1967, grounded theory has been widely used in social science areas (Strauss and Corbin, 1998), with more specific methods and procedures having been developed to provide guidance for researchers (Locke, 2001). One interesting phenomenon is the growing deviation between Glaser

and Strauss in the 1990s (Glaser, 1992; Strauss and Corbin, 1990, 1998). The differences between Glaser's and Strauss's approach are soundly explained in Parker and Roffey's work (see Table 3.3).

Table 3.3: A comparison of grounded theory methodology orientations: Strauss and Corbin (1990) vs. Glaser (1992)

<b>Glaser</b>	<b>Strauss and Corbin</b>
<ul style="list-style-type: none"> <li>• Two core questions:               <ul style="list-style-type: none"> <li>– What is the chief concern/problem people in the area under study?</li> <li>– What category does the concern indicate?</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• The research question is a statement that identifies the phenomenon to be studied</li> </ul>
<ul style="list-style-type: none"> <li>• The problem emerges and should not be 'forced' by the methodology. Categories and their properties 'emerge' through constant comparison of incident to incident</li> </ul>	<ul style="list-style-type: none"> <li>• Researchers need help with the interpretation process: procedures and techniques need to be spelled out. Subcategories are linked to categories that denote a set of relationships (i.e. causal conditions, action/interaction strategies, and consequences)</li> </ul>
<ul style="list-style-type: none"> <li>• Can be difficult to operationalise</li> </ul>	<ul style="list-style-type: none"> <li>• Easier to operationalise</li> </ul>
<ul style="list-style-type: none"> <li>• Generate concepts and their relationships to explain and/or interpret variations in behaviour in the substantive area under study</li> </ul>	<ul style="list-style-type: none"> <li>• Generates an inductively derived theory about a phenomenon comprised of interrelated concepts</li> </ul>
<ul style="list-style-type: none"> <li>• Produces a theoretical formulation or set of conceptual hypotheses. Testing is left to other researchers interested in such work</li> </ul>	<ul style="list-style-type: none"> <li>• Undertakes continual verification and testing to determine likely validity of concepts and relationship between them</li> </ul>

Source: Adapted from Parker and Roffey, 1997, p. 221

In sum, they argue that the essential differences between Strauss and Corbin (1990) and Glaser (1992) lie in three major areas (Parker and Roffey, 1997, p. 222):

1. The approach to generating the focal research issues

2. The degree of formal structuring of the approach to coding data
3. The degree of formal structuring of the approach to generating a theoretical framework

Generally, in relation to the above three issues, Strauss and Corbin are more detailed, structured and prescriptive in specifying the steps and techniques to be taken by scholars when conducting grounded studies (Parker and Roffey, 1997), whereas Glaser adopts a less structured approach to allow the substantive theory to emerge more freely (Glaser, 1992). It has been recognised that these differences only stay at the technique level and do not alter the basic nature of grounded theory as a theory generating methodology (Parker and Roffey, 1997). Instead, variation between the two originators is highly appreciated by scholars because they have enriched the repertoire of operational techniques of conducting grounded theory studies (Locke, 2001; Parker and Roffey, 1997).

### **3.3.2 Rationale for the choice of grounded theory**

This study adopts grounded theory as a major methodology based on the following reasons: Firstly, grounded theory is derived from the interpretive approach, which provides a favourable philosophical basis to understand the meaning of social constructed reality (Denzin and Lincoln, 1998; Locke, 2001; Parker and Roffey, 1997). Secondly, grounded theory centres on investigating the process questions concerning experience over time or change that may have stages or phases (Backman and Kyngas, 1999; Glaser and Strauss, 1967; Locke, 2001; Morse, 1998). Because the aim of this study is to investigate process phenomena, grounded theory will be a suitable means to guide the whole research process. Thirdly, the essential nature of grounded theory is to generate theories rather than test hypothesis (Backman and Kyngas, 1999; Glaser and Strauss, 1967; Strauss and Corbin, 1990). More freedom is given to this study to create substantive theories that can be later tested by more quantitative or qualitative works. Finally, as mentioned above, it has been recognised that analysis of large amounts of qualitative data is always problematic to researchers; grounded theory provides a structured procedure that will be potentially useful for analysing qualitative data (Backman and Kyngas, 1999; Easterby-Smith et al., 1991; Strauss and Corbin, 1990). This study

has generally followed the approach presented by (Strauss and Corbin, 1990, 1998), considering that this approach provides relatively rigid analytic procedures and diversified analytic tools, which are more helpful for novice researchers to follow so as to achieve precise and valid interpretation.

### **3.4 Data Collection**

In the whole process of grounded study, data collection and data analysis are strongly interwoven and iterative (Backman and Kyngas, 1999; Locke, 2001). As for specific techniques of data collection, grounded theory, in which much effort is going to assist data analysis, is less helpful (Locke, 2001). Therefore, some other methods comprising longitudinal case research, semi-structured interview and participant observations, are utilised in parallel with grounded theory to assist data collection. These methods have provided useful help for defining the object to be studied and for collecting data without harming the essential nature of grounded theory: theory generation.

#### **3.4.1 Longitudinal single case research design**

There is an increasing appeal in the literature of strategic management for employing longitudinal field study to investigate strategic processes due to deep insights unfolded by such method (Burgelman, 1983a; Chakravarthy and Doz, 1992; Pettigrew, 1985; Rajagopalan et al., 1993; Schwarz and Nandhakumar, 2002). Some researchers strongly appeal that in order to obtain a deep understanding towards the dynamics of strategy formation, longitudinal studies should be undertaken to uncover the significance of complex and dynamic interplay between context, process and outcomes (Pettigrew, 1990; Rajagopalan et al., 1993). Following this suggestion, a longitudinal method by means of one single case research was employed in this study in order to gain rich meanings of strategy formation. Pettigrew (1990, p. 270) further argues that 'history is not just an event in the past but is alive in the present and may shape the future'. Therefore, this design combines the collection of real time data plus historical data. As a result, the data collected in this study spans 18 years from 1986 to 2004, with the major focus on the period between 2001 and 2004. It has proved that historical data plays an equally important role during the research. For instance, the

data relating to the personal history of the founder 40 years ago has assisted this study enormously to understand the deep motivation underlying the observed diversification strategy formation.

Case research is utilised in this study for two reasons but without the intention of using case study as a guiding methodology<sup>1</sup>. Firstly, case research provides ‘a choice of object to be studied’ (Stake, 1994, p. 236), and more importantly, supplies ‘an extensive examination of a single instance of a phenomenon of interest’ (Hussey and Hussey, 1997, p. 65). In order to gain a deep understanding of strategy formation, case research has helped to set a boundary for this study. Secondly, case report is regarded as one important mechanism for transferring knowledge from one setting to another (Guba and Lincoln, 1994). Therefore, this study uses a format of case description for reporting qualitative data so as to assist readers to understand relevant context and processes. Currently a frequently asked question towards one single case research relates to its generalisability. This study intends to achieve a deep understanding of the strategy formation under a specific Chinese Private Enterprise, however it is never intended to generalise in a quantitative statistical sense. Strauss and Corbin (1998) have argued that one single case can not be representative of all the other cases but deep knowledge can be learned from concepts originated from a single case study, which provides a starting point for future research.

### **3.4.2 Selection of the case**

There is an intentional component when choosing the empirical site. Generally selection of a research site is determined by the research aim (Pettigrew, 1990). Pettigrew (1990) further suggests four decision rules to guide the choice. Firstly, select ‘extreme situations, critical incidents and social dramas’ where the process is ‘transparently observable’ for the convenience of data collection (Pettigrew, 1990, p. 275). Secondly, go for ‘polar types’ which illustrate high or low performances (Pettigrew, 1990, p. 275). Thus the linkage between the performance of companies and strategic processes would shed potential insights for theory building and practice. Thirdly, ‘go for high experience levels of the phenomena under study’ where clear evidence can be found

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<sup>1</sup>Here I deliberately use the term ‘case research’ rather than ‘case study’ for the purpose of clarifying that this study is not guided by the methodology of ‘case study’ (Yin, 1994, etc.).

and easily observed (Pettigrew, 1990, p. 276). Fourthly, 'go for more informed choice of sites and increase the probabilities of negotiating access' (Pettigrew, 1990, p. 276). Guided by these rules, my initial attempt was to find polar types that have distinguished performance. The statistics of All-China Federation of Industry and Commerce provided such a good source to identify the Top 500 CPEs (Anon, 2001). These 500 Private Enterprises have the potential to suit the standards of 'extreme situations', 'polar types' and 'high experience levels of phenomena' (Pettigrew, 1990) because they had relatively better performance, wide coverage of public reports, and importantly, had rich experiences of strategy practice. Because I had previously worked in the telecommunication industry and have certain knowledge in this sector, some enterprises with telecom backgrounds that are located in different areas of China were provisionally chosen in the beginning.

### **3.4.3 Gaining the access**

Although the above design of site selection had intentional components the process of gaining access proved to be extremely opportunistic and access was highly dependent on a personal network under the Chinese business context. The contact letter, covering the issues of research purpose, possible contributions to companies and the required assistance, was formulated in March 2002. Then different ways were tried to negotiate access between March and July 2002. The contact letter plus my CV was posted to fifteen enterprises that had been previously selected. After two weeks an email letter followed to further attract their attention to this study. Simultaneously, my personal network including relatives, friends, previous employers etc. were utilised. Unfortunately, no single response was obtained by way of post or email. I assume that it was possibly due to lack of *guanxi* (personal networks) with companies. They have no trust in researchers from outside. Some fellow Chinese researchers in England confirmed my assumption and gave me the same suggestion that access has to rely on a personal network. Therefore appealing for help from relatives and friends became the major way to gain access to one of the Top 500 enterprises after May 2002. Targeted organisations were also further expanded into other industries so as to increase the possibility of success. In this respect, *guanxi* has shaped one major barrier for scholars especially without many network affiliates to gain access to Chinese companies. An-

other difficulty in securing access related to the strategic nature of this study in that researched issues are highly confidential, sensitive and high-level. This added more complexity and difficulty for obtaining access. Fortunately, three chances emerged in June with help from friends. One site was my previous employer, which is one of the largest private telecom enterprises located in *Shenzhen*. The feedback from the head of my previous department was that accessibility was possible, however interviewing top management level would be extremely difficult due to extremely secretive and cautious organisational culture. Another two private companies with headquarters in *Mianyang, Sichuan* province (see Appendix D: Map of China) showed positive postures to be involved with this study at top management level. Their corporate brochures were subsequently posted to England to assist me to understand their companies. After frequent telephone conversations with friends in these companies, a decision was made in July 2002 based on two pragmatical considerations. Firstly, there must be ongoing strategic decisions in the enterprise; secondly, I would have more freedom to access top management level. As a result, Fumin<sup>2</sup> was selected as the final site of this study in July 2002. Fumin is a conglomerate corporation that covers multiple businesses including real estate development, mechanical manufacturing, public transportation, hospital service and trading. For a long time, the company intended to expand its strategic focus from real estate business into manufacturing areas. Since the end of 2001 the company has been actively engaged into a diversification strategy formation into the commercial vehicle manufacturing industry. This has provided a great opportunity for the researcher to observe strategy formation under a real time setting. This diversification strategy will be described in Chapter 4 in detail. After some basic understanding about this company built up, process of data collection commenced.

#### **3.4.4 Data collection methods**

The span of the real-time data collection process was up to 2 years from July of 2002 to July of 2004. Two intensive field visits had been planned and supplemented by email correspondence and telephone interviews when I was unable to appear at the field site. After negotiation with the company, the first intensive field visit was conducted between 16 September and 21 November 2002; the second field visit between

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<sup>2</sup>For confidentiality, the pseudonym 'Fumin' is used to refer to this investigated Chinese Private Enterprise.

27 October and 20 November in 2003, one year after the first visit. In total, I spent thirteen weeks with the company. During these field visits, I visited the company on a daily basis in order to obtain sufficient information of the ongoing strategic formation process so as to optimise my limited visiting time in China. The methods of data collection consisted of semi-structured interviews, participant observations and document searches.

With regard to interviews, the primary purpose was to understand the meaning in terms of importance to the interviewees. Therefore interview questions were 'not structured in advance based on some pre-assumptions' (Easterby-Smith et al., 1991, p.73). Semi-structured interviews with some general interview questions were employed in order not to lose the focus of this research. The interview questions were generally open and covered major aspects relating to this diversification strategy process:

- **Background of the diversification strategy:** e.g. motivation, key determinant factors, organisational context, specific industrial context, regulatory environment
- **Main strategic activities:** e.g. major actions, procedures, strategic tools
- **Main participants:** e.g. key decision makers, their positions, their departments, their backgrounds
- **Relevant outcomes and performance:** e.g. outcomes of strategic activities, performance evaluation towards the strategy formation, financial outcomes of this diversification strategy
- **General organisational background:** e.g. corporate strategy, structure, performance, history
- **General environmental background:** e.g. customers, products, competitors, industrial environment

In order to obtain the above information the majority of interviewees selected were the participants of the strategy formation including the Chairman, top managers, middle managers, employees and internal consultants. Some local officials were also interviewed because it was later found that local governments exerted influence on corporate strategy formation. In addition, the former Vice Minister of State Council Office

for Restructuring Economic System was also briefly interviewed in *Beijing* in order to understand macro political context towards the private sector in China. Totally 72 interviews with 33 interviewees were conducted; this is summarised in Table 3.4.

Title		Number of interviewees	Number of interviews
Chairman		1	7
Senior managers	General manager	1	5
	Vice General Manager	1	2
	Vice General Manager	1	2
	Assistant General Manager	1	3
Middle managers	Manager of Fumin SVGE	1	4
	Vice-manager of Fumin SVGE	4	6
	Manager of Fumin Transportation Group	1	2
	Manager of Planning Department	1	9
	Secretary of General Managers Office	1	5
	Manager of Human Resource Department	1	3
	Vice-manager of Fumin Property Development Co.	1	1
	Manager of Fumin Hospital Service Group	1	1
	Chief Editor of 'Fumin People' (an in-house paper)	1	2
Manager of Fumin Vacuum Die-Casting Co.	1	2	
Employees	Employees of Planning Department	4	7
	Employee of General Managers Office	1	1
Internal consultants	Managerial Expert	1	5
	Managerial Expert	1	2
	Hospital Service Expert	1	1
Government officials	Vice Mayor of <i>Mianyang</i> City	1	1
	Officials of <i>Mianyang</i> Economic Restructuring Office	5	
	Former Vice Minister of State Council Office for Restructuring Economic System	1	1
<b>Total</b>		<b>33</b>	<b>72</b>

Table 3.4: Summary of interviews

The majority of interviews were tape-recorded and were transcribed immediately so as to prevent any loss of information. After the interviews, I also kept close contact with some of the interviewees via email in order to ask follow-up questions and triangulate validity of the data.

During the research process, participant observation was also employed to help me sense the organisational atmosphere, leadership style, political issues, attitudes of managers and employees etc. that were incorporated into this diversification strategy process. I arranged to stay in the strategic planning department where I volunteered to become an active participant involved in general management issues of the company. I shared certain knowledge, such as strategic planning tools, with managers. As a consequence, trust was built up between me and the interviewees. This proved to be enormously beneficial, giving me access to corporate strategic planning meetings, top management meetings, quarterly sales review meetings and to view some other important sites. All observations were written down into my research diary. It is important to emphasise that my purpose to adopt a participant role was to gain trust and therefore secure more access by providing necessary help. I did not intend to shed any influence on the observed strategy formation process and bring any personal bias into conversations when conducting the interviews. Instead my participation was carefully limited within general management issues without influencing the observed diversification strategy formation process.

Corporate documents were also extensively collected including the annual financial reports, annual planning reports, the ownership structure, the organisational structure chart, market analysis reports, new product development processes, human resource policies, minutes of meetings, in-house papers etc. These documents provided a valuable source to gain a holistic understanding towards this diversification strategy formation.

In addition, telephone interviews and email correspondence were utilised to get updated information when necessary. Detailed notes were written when conducting telephone interviews and emails were all organised into different files so as to enrich my database.

As a result a vast amount of information towards this diversification strategy was uncovered. A case story was written up to document strategic context, background, strategic activities, participants and relevant outcomes of this diversification strategy.

### **3.4.5 Theoretical sampling**

One of the distinguished features of grounded theory is strong linkage between data and evolved theory (Glaser and Strauss, 1967; Locke, 2001; Strauss and Corbin, 1990, 1998). During the process of data collection, 'theoretical sampling' was used to guide the revision and selection of subsequent interview questions and interviewees (Strauss and Corbin, 1990, 1998). 'Theoretical sampling' means that further data gathering is driven by concepts and researchers should go to people and places that would 'maximise the opportunities to discover variations among concepts and to density categories in terms of their properties and dimensions' (Strauss and Corbin, 1998, p. 201). Therefore, the data collection in this study was highly iterative with data analysis; emergent concepts were constantly compared with the data and were regarded as further direction for data collection. Relating to interview questions, they were revised based on major concerns of the interviewees and frequently went on to the important concepts as they emerged from the interviews. For instance, *siying qiyejia* frequently appeared when interviewees were asked to identify key determinant factors of the strategy formation. Therefore, more detailed questions were constructed to further explore the concept of *siying qiyejia*, which contained issues of his characteristics, personal history, value systems etc. Regarding interviewees, the vice mayor of the *Mianyang* government and some local officials from the Department of Economic Reform were added to my interview list because it was later found that local governments played an important role for the enterprise to obtain strategic information, business partners and commercial licences etc.

## **3.5 Data Analysis**

Grounded theory addresses strict analytic procedures, especially in Strauss and Corbin's approach (Locke, 2001; Parker and Roffey, 1997; Strauss and Corbin, 1990, 1998). This analytic procedure comprises open coding, axial coding and selective coding, with

selective coding as the most abstract level in the theory building process. One of the distinguished features of grounded theory, as explained above, lies in its strong linkage between data and evolved theory (Glaser and Strauss, 1967; Locke, 2001; Strauss and Corbin, 1990, 1998). Therefore the analytic procedure of this study was highly iterative with data collection; emergent concepts were constantly compared with the data.

In this section, the procedure of grounded theory proposed by Strauss and Corbin (1990; 1998) and my application of these techniques are briefly discussed. The detailed explanations about generated categories and theoretical frameworks in this study are depicted in great detail in Chapter 5 and 6. Grounded theory produces proliferate terminologies to guide the analysis, I will not explain every term in detail in the main text. Instead, a comprehensive list of the terminology of grounded theory is given in Appendix C.

### **3.5.1 Open coding**

Open coding refers to ‘the analytic process through which concepts are identified and their properties and dimensions are discovered in data’ (Strauss and Corbin, 1998, pp. 148-156). The purpose of open coding is to discover concepts or categories that are the building blocks of theory (Strauss and Corbin, 1998, pp. 148-156). Two steps are suggested for conducting the open coding.

The first step is ‘conceptualising’ meaning that abstract concepts should be given to the phenomena that researchers have identified as being significant (Strauss and Corbin, 1998, pp. 148-156). In practice, data should be firstly broken down into discrete incidents, ideas, objects, events and acts; secondly they are given an abstract name (or concept). Three ways about how to break down data and identify the important phenomena have been suggested including line-by-line analysis, sentence or paragraph analysis, and entire document analysis (Strauss and Corbin, 1998, pp. 148-156). The majority of the data in this study followed line-by-line coding that would possibly preclude any tendency to assign meaning in a general way, especially for a new researcher (Locke, 2001). Locke (2001) provides good suggestions and examples about how to identify a relevant fragment from a line-by-line analysis. A relevant fragment might be a few words, a sentence or several sentences depending on the focus of the study

(Locke, 2001). After relevant fragments are recognised, proper names should be composed to fit the relevant fragments at a conceptual level (Locke, 2001). By following this guidance, a large number of concepts were developed from the data in this study.

The purpose of the second step is to discover categories. Firstly, concepts with similarities are grouped into more abstract explanatory categories in order to 'reduce the number of units with which a researcher is working' (Strauss and Corbin, 1998, pp. 148-156). Secondly, a category is developed in terms of its properties and dimensions so as to differentiate one category from another and give them precision (Strauss and Corbin, 1998, pp. 148-156). 'Properties' refers to 'characteristics of a category, the delineation of which defines and gives it meaning' (Strauss and Corbin, 1998, p. 101), and 'dimensions' means that 'the range along which general properties of a category vary, giving specification to a category and variation to the theory' (Strauss and Corbin, 1998, p. 101). Thirdly, category is further broken down into subcategories by asking questions such as when, where, why and how phenomena occur in order to give the category further clarification and specification (Strauss and Corbin, 1998, pp. 148-156).

However, the actual coding procedure presents great dynamics, with constant revision about the name of concepts, their situated conceptual levels etc. The first step of 'conceptualising abstract concepts' is relatively easy to follow. In this study, all my transcripts about interviews were line-numbered and based on line-by-line analysis, a large quantity of concepts were generated to explain discrete incidents, ideas, objects, events, acts etc. relating to the observed strategy formation process. However, the second step of 'discovering categories' is extremely difficult because it involves multiple concepts and coding activities. The grounded theory expose five major concepts to describe and enrich the resulting open category, including 'concept', 'category', 'subcategory', 'property' and 'dimension' (please see Appendix C for detailed explanations). These concepts have greatly facilitated my conceptualising capabilities towards specific phenomena; however the boundary between these five concepts can sometimes be blurred. Sometimes, one initially generated concept can be directly elevated to one category, with its meaning gradually enriched by the data and with recognition of its importance to the topic. Sometimes the initially selected category can be degraded to subcategories or properties, with the progress of data collection and data interpretation, also with improvement of my personal understanding towards these concepts and cat-

egories. However, in general there exists a hierarchical relationship between these five concepts, with 'category' representing a more abstract level of meaning, followed by 'subcategories', 'properties' and 'dimensions', with dimensions being the most specific concept to delineate phenomena. In addition, 'concepts' which are grounded on data, are building blocks to form 'categories', 'subcategories', 'properties' and their 'dimensions'. To further clarify the open coding Appendix A provides an example of how the open coding was conducted, from raw interview notes to open codes (concept, category, subcategory, property and dimension) in this research. A commercial spreadsheet package was found to be convenient for holding and sorting these codes. As a result of the open coding, seven categories with their subcategories, properties and dimensions, were finally conceptualised to delineate the ongoing diversification strategy formation process. The contents of these seven categories are explained in great detail in Chapter 5.

### **3.5.2 Axial coding**

Axial coding is a process of 'relating categories to their subcategories at the level of properties and dimensions' (Strauss and Corbin, 1998, pp. 148-156). The purpose of axial coding is to reassemble data that is fractured in open coding to 'form more precise and complete explanations about phenomena' not descriptively but rather at 'a conceptual level' (Strauss and Corbin, 1998, pp. 148-156).

Three analytic tools including conceptual diagrams, paradigms and mini-frameworks are proposed to assist the analysis process (Strauss and Corbin, 1990, 1998). I employed tables, conceptual diagrams and paradigms to theorise this diversification strategy process. 'Conceptual diagrams' refer to 'visual devices that depict the relationship among concepts' (Strauss and Corbin, 1998, p. 217). They helped me to visualise the possible linkage between concepts and to identify the gaps in logic relationships between these concepts. As a result, several diagrams were developed in this study. These will be illustrated in Chapter 5 and 6. In addition the paradigm tool is also utilised in this study. The basic components of a paradigm are context, phenomenon, actions/interactions and consequences (Strauss and Corbin, 1998). The aim of using paradigm is to integrate these factors so as to shape a holistic picture about 'what is really going on there' (Strauss and Corbin, 1998). As a result, one paradigm model has

been developed to synthesise the context, actions/interactions and relevant outcomes of this diversification strategy process. The categories that originated from the open coding were incorporated into this paradigm and were related to each other. This paradigm was then constantly revised based on comparison with data and also based on discussions with corporate members. This core paradigm has provided great assistance for gaining holistic understanding towards the strategy formation inside the company. It has also facilitated the synthesising process in the later stages of analysis. The results from axial coding are mainly illustrated in Chapter 6.

### **3.5.3 Selective coding**

It is widely recognised that selective coding is extremely difficult among three procedures (Backman and Kyngas, 1999; Strauss and Corbin, 1998). This process aims to integrate and refine the theory so as to explain the pattern of social behaviours (Glaser, 1978; Strauss and Corbin, 1998). Emergent theory should be presented as a set of interrelated central concepts that could accommodate the essential nature of observed phenomenon at a conceptual level (Glaser, 1978; Strauss and Corbin, 1998). This stage requires the clarification of central category that ‘consists of all the products of analysis condensed into a few words that seem to explain what this research is all about’ (Strauss and Corbin, 1998, p. 146). The central category would form the basis for developing a more general theory (Parker and Roffey, 1997, p. 230). Strauss and Corbin (1998, p. 147) provide six criteria for choosing central categories: centrality, frequency, consistency, abstraction, sufficient explanatory power and variation. Several techniques such as writing the storyline, using diagrams, reviewing and sorting through memos are produced to facilitate this integration process (Strauss and Corbin, 1998, pp. 148-156).

It has been suggested that a single study should concentrate on one central category at a time in order not to lose the focus (Glaser, 1978). Therefore, in this study one central category has been selected as the major focus. After recursive loops between the data and the paradigm, one central category emerged to synthesise the whole research. Based on this central category, a grounded theory of ‘intention legitimising’ has emerged to answer the research questions in this study. The relevant results will be explained in Chapter 6.

There are multiple ways to present final emergent grounded theory (Creswell, 1998; Strauss and Corbin, 1998). It could be propositions in narrative form or logic diagrams in the form of a visual model etc. (Creswell, 1998, p. 181). In this study I utilised diagrams combined with narrative forms to present the final theoretical findings. Based on the grounded theory approach, evolved theories centred on the central category need to be further refined in the final stage for internal consistency, which need filling in gaps, trimming excess ones and validating schemes (Strauss and Corbin, 1998). This has been reflected in constant revision of my final findings and broad discussions with the interviewees, supervisors and other research scholars.

### **3.5.4 Memos**

Memos are ‘the theorising write-up of ideas about codes and their relationships as they strike the analyst while coding’ (Glaser, 1978, p. 83). Their importance in conducting grounded theory is highlighted in several monographs (Glaser, 1978; Strauss and Corbin, 1998). Glaser (1978) even claims that it would not be grounded theory research if no memos were written up. Despite the varied suggestions for writing memos, the essential nature of memos is to record emergent ideas, categories and their relationships until the evolved theory comes into saturation (Glaser, 1978; Strauss and Corbin, 1998). In this study, memos have been written alongside the coding process. These memos have greatly helped me keep track of ideas, categories and their relationships. Most importantly, they have later become important raw inputs to the chapters of data analysis and discussions. The following is an original record of one memo written on October 2, 2003, which reflects my understanding at that moment:

Table 3.5: An example of memos

**Date:** 02/10/2003

**Category—**‘organisational *guanxi*’

Organisational *guanxi* is penetrating into the majority of activities during this strategic decision-making process. Since Mr Fu has become a successful *qiyejia*, he kept seeking opportunities to accomplish his personal intentions (diversifying into vehicle manufacturing process) which originated from his hard life issues. *Guanxi* is a major way to find partnership and strategic information etc. His successful merger with *Sichuan Vehicles Group Enterprise (SVGE)* came from one piece of key information from one of his friends in the bank circle and then, by cultivating good *guanxi* with this company and relying on good *guanxi* with local governments, Fumin succeeded in the merger even it was not the best candidate during the competition. After the successful merger, Mr Fu tried to persuade his employees to accept his decisions and further elaborate his decision into detailed feasible strategic plans. During this persuasion process, he also used his internal good *guanxi* to get support. However, most of managers were not convinced. It should be expected, that at this time, conflicts or debates should enter the strategy formation process until the final strategy is agreed or abandoned. However, the company stayed silent in the formal way, enormous complaints coming from underneath, from the boss’s back. The major reason for this silence was nobody wanted to hurt the *guanxi* between them and their boss, who has a fundamental say on their personal interests. In the meantime, another factor, which was maintaining good *guanxi* with local governments, came in, because Mr Fu promised the local government that he would diversify into the commercial vehicle manufacturing business before he signed the merger contract. Therefore, betraying the government would be extremely detrimental for the long term *guanxi* relationship. Consequently the whole organisation for the sake of maintaining good *guanxi* with the boss and local governments, began justifying that their boss has made a right decision. On one hand, the organisation began to manufacture coaches in an experimental way. On the other hand, the organisation actively utilised the *guanxi* with local governments to seek foreign and domestic partners that would bring potential human capital, financial capital and managerial skills into the corporation. Unfortunately, it still seems difficult to find good partner. The data need to be further collected for answering these reasons.

Based on the above analysis, I propose:

In a Chinese private corporate setting which is under conditions of strong influence by a *qiyejia* yet showing weak organisational strategising and structuring capabilities, *guanxi* is a major means for legitimising strategic decisions.

It seems that this proposition could explain two extreme situations and further add variation into the future emergent grounded theory. One is if *guanxi* is good and strong enough, strategic decisions could be legitimised in the organisation; however, if *guanxi* is not good or strong enough, strategic decisions would fail to be put into practice and will be terminated and disappear from the organisational strategic priorities.

## **3.6 Conducting Grounded Theory in the Chinese Context**

Conducting grounded theory in the Chinese context is not an easy practice, even without considering common difficulties derived from this methodology itself (Backman and Kyngas, 1999; Charmaz, 2000; Locke, 2001). In this section I will reflect on some issues that I have found extremely challenging, when conducting this grounded theory research in the Chinese context, in the hope that the related suggestions will help scholars shorten their learning curve and conduct grounded theory in a more effective manner.

### **3.6.1 Coding in a bilingual setting**

Grounded theory requires researchers to have high linguistic skills so as to present a final substantive theory in a precise way. As a Chinese scholar I have faced enormous difficulties in commanding two languages: Chinese and English during the whole research process. One major challenge came from the coding process during which phenomena have to be conceptualised and labelled in a precise manner. It can be relatively easy to find a pertinent code in the mother tongue while it becomes difficult when theorising in the second language background. I have recognised that the coding process is definitely not a direct translation process. Instead it is a complicated creative process embedded in scholars' linguistic and cultural backgrounds (Temple, 1997). This social embeddings leads to deviance in understanding the same terminology under bilingual settings and further adds difficulties in precise interpretation. Therefore increasing the awareness and knowledge towards languages is extremely epistemologically significant for researchers who carry out grounded theory in a Chinese-English bilingual setting (Temple, 1997). However these language issues have not been sufficiently addressed in classic grounded theory monographs. With the spread of grounded theory to the global level (Glaser, 1999), it is an urge to fill in this gap so as to assist scholars when carrying on grounded theory research in a bilingual setting. Several recommendations in relation to code in a Chinese-English bilingual setting are suggested to scholars as follows:

### **Improving cultural awareness**

Language is embedded in its specific cultural and national settings and therefore has its own distinguished cultural bearings. The same term under different cultural backgrounds may imply varied assumptions and therefore suggest variance in its meaning (Littrell, 2002). For instance Chinese *guanxi* (translated as connections; relations) suggests a dramatically different connotation from the term 'relationships' in the Western context regarding its origination, cultivation, scope etc. This implies that scholars when carrying out grounded theory research between two cultures should carefully consider the influence that those cultures will exert. In this study, numerous English concepts have to be constructed to label Chinese phenomena. The coding can not become purely a process of directly translating Chinese terms into English. Instead this process has to be put into cultural contexts and originated concepts have to be consistent with people's understandings from both Chinese and English cultural backgrounds. This is the most difficult obstacle I have met when carrying out the grounded theory methodology. There is no easy way to conquer this difficulty and achieve precise interpretation, researchers have to continually improve their awareness towards multiple cultures by immersing themselves into broad social and historical issues. Besides increasing cultural awareness, this study finds that there are several techniques directly beneficial for the coding in a Chinese-English bilingual setting. They are discussed as follows:

### **Collaborative coding**

Glaser (1978) proposes this tactic in order to increase the coding speed. Co-coding is a learning process by exchanging or sharing the understanding of codes from different coders. From this mutual interacting process many precise concepts can be given to researched phenomena and the concepts can be validated from different perspectives. The partners should be selected cautiously, as Glaser (1978, p. 59) suggests the collaborator should be given a stake in the final theory. Additionally psychological problems derived from collaborative coding is specifically highlighted by Glaser (1978). He emphasises that both analysts must be careful not to hurt the others feelings (Glaser, 1978, p. 59). Therefore, I would suggest that closeness of methodological backgrounds between collaborators would enhance the mutual learning process and also help to smooth emotional hurdles during the coding process because of mutual

interests and understanding between collaborators. In addition it would be beneficial if scholars from one cultural background could co-code with researchers from another cultural background so as to facilitate this learning process. For instance Chinese scholars could co-code with English scholars.

### **Conceptual debate**

I also found that conceptual debate is extremely beneficial for increasing coding capabilities. Here I emphasise that debate should be at the conceptual level, focusing on theoretical concepts originated from the data. For instance, I have explained many generated concepts in this study to supervisors, colleagues, friends and families, and have further questioned whether they have been interpreted properly and have clear definitions and sufficient abstraction etc. Debate can happen at any time and places with any person from any background. This will potentially provoke imagination and creation during theorising process.

### **Using multiple dictionaries**

Dictionaries have proved to be very important tools to assist the coding process in this study. In general, these dictionaries have enriched my understanding towards concepts and are especially useful for raising my awareness of subtle differences in meanings of concepts under a bilingual setting. Dictionaries can be categorised into two types. The first type relates to bilingual dictionaries, such as 'A Chinese English Dictionary', 'Oxford Advanced Learners Dictionary of Current English with Chinese Translation' etc. These dictionaries can serve as initial and useful tools to help researchers appreciate basic translations under two language settings. However, special attention should go to the concepts which are particularly significant for grounded theory building. These concepts can refer to the second type of dictionary which can provide more profound and deeper meanings, such as 'The New Oxford Dictionary of English' and dictionaries in specific professional areas. In addition, thesaurus dictionaries, such as 'Roget's Thesaurus', might help to expand researchers' thinking, and to provide multiple terms for choice in the hope that proper names can be found to observed phenomena. However when using dictionaries caution should be taken towards those significant

concepts. For instance, the concept of '*siying qiyejia*' is directly translated as 'private entrepreneur' according to A Chinese English Dictionary (Wei, 2001), however, the connotation of 'entrepreneur' is extremely problematic in the Western literature of entrepreneurship (see Section 2.4.4). Therefore relying on dictionaries under these circumstances might be misleading and further deteriorate the validity of generated knowledge. Under these situations I would suggest using original language so as to capture rich connotations embedded into original social and cultural backgrounds.

### **3.6.2 Translating the relevance**

There is no fixed rule to guide what and how much should be translated in classic grounded theory monographs. Strauss and Corbin (1998) suggest that translation to English should be kept minimal in order not to lose subtle meaning of original transcripts and waste valuable time. It is also impossible to request scholars to translate all the data with accuracy. However, translating certain parts will be undoubtedly necessary for communicating and sharing knowledge (Strauss and Corbin, 1998). From my experience, I would suggest leaving the translation to the final stage until core categories and theory gradually come into shape. These core categories and evolved theory will position the key and relevant parts of the data that need to be precisely translated so as to support findings. This tactic can help Chinese scholars focus on coding and conceptualising in the earlier stage and also improve the quality of translation at a later time. In addition, bilingual experts can be employed or consulted during the translation process if possible. Temple (1997) raises the epistemological concern about the role of a translator in cross-cultural studies. It is suggested that caution should be taken to translations conducted by translators because they are embedded in certain social settings and also have their own perspectives which will implicitly influence interpretation (Temple, 1997). Therefore translators should be regarded as active research collaborators rather than passive roles so as to gain precise understanding towards the investigated phenomena (Temple, 1997). In this study, I did not employ translators due to practicable concerns. However if translators are employed Chinese scholars should be aware of the above issues.

### 3.6.3 Building up *guanxi* with Chinese organisations

Access to the research site is a basic premise for collecting qualitative data and conducting grounded theory study; it is problematic to any qualitative researchers (Easterby-Smith et al., 1991). However gaining access to Chinese organisations has a particular feature. My access to the observed Chinese private enterprise has shown a heavy reliance on personal *guanxi*. *Guanxi* is a widely recognised phenomenon that is prevalent in nearly all Chinese daily activities. Gaining access for this study has proved to be no exception. Moreover the heavy reliance on *guanxi* for access is not purely a cultural consequence; it is also determined by the nature of the research topic. Because strategy formation is commonly regarded as a highly confidential issue, a high degree of trust and strong *guanxi* between scholars and investigated companies would be a best guarantee for successfully gaining high quality data. Therefore I would suggest Chinese scholars pay attention to cultivate personal *guanxi* with Chinese organisations if they intend to conduct grounded theory in the Chinese context. Regarding specific techniques of cultivating *guanxi*, this study has provided some practices utilised by the Chinese private enterprise; scholars can also refer to other studies for vivid documentation of *guanxi* building (Mei-hui Yang, 1994, etc.).

## 3.7 Summary

In order to better understand the dynamics and complexity of strategy formation, this study adopts interpretive paradigm which focuses on understanding the meanings from individuals who are attached to situations. Grounded theory by means of the Strauss and Corbin's approach serves as a major methodology to guide the whole research process. This study chose to investigate one single case over a period of two years for the purpose of gaining the richness and dynamics of strategy formation. In addition, semi-structured interviews were mainly utilised to collect data; coding techniques of the grounded theory guided data analysis.

This chapter aims to clarify the research approach and illustrate the process of data collection and analysis. However, the findings and results derived from this research process are not presented in this chapter. Instead, the following Chapter 4, 5 and 6 are devoted to recording the resultant outcome of the research process. Chapter 4 provides

a detailed description of the strategic context, content and process of diversifying into commercial vehicle manufacturing industry in Fumin company. Building on the empirical data, Chapter 5 and 6 document theoretical findings following coding techniques suggested by Strauss and Corbin (1990, 1998).

## Chapter 4

# DIVERSIFYING INTO THE COMMERCIAL VEHICLE MANUFACTURING INDUSTRY

### 4.1 Introduction

The empirical work was conducted at Fumin, which has headquarters in *Mianyang*, *Sichuan* Province (see Appendix D: Map of China). Fumin was founded in 1986 by Mr Fu with a personal investment totalling £ 209.21 (¥3000) <sup>1</sup>, initially producing feather-down products. After development over sixteen years Fumin has expanded into multiple industries including real estate development, manufacturing, public transportation, hospital service and commerce businesses. By 2002 the group had sixteen business subsidiaries with total assets valued at up to £ 103.14 million (¥1479 million) and around 3500 employees. The total revenue of the group in 2002 was £ 56.49 million (¥810 million). According to standards of the National Statistical Bureau <sup>2</sup>, Fumin is a large-sized private enterprise. In addition, according to statistics from the All-China Federation of Industry and Commerce, Fumin was awarded as one of the top

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<sup>1</sup>It represents the amount of the equivalent Chinese currency. The exchange rate adopted in this study is 14.34: 1 (Chinese *Yuan* against British Sterlings), dated December 31, 2003 (Source: [www.bank-of-china.com](http://www.bank-of-china.com)).

<sup>2</sup>Based on the standards set by the National Statistical Bureau in 2001, the enterprises with total assets and annual revenue beyond £ 34.87 million (¥500 million) are categorised as large-sized enterprises; total assets and annual revenue beyond £ 3.49 million (¥50 million) are medium-sized ones.

500 CPEs in 2000 (Anon, 2001). In 2002, Fumin was in a list of the top 50 enterprises in Sichuan Province (*Sichuan Statistics Bureau, 2002*).

From the end of 2001, Fumin began to diversify into the commercial vehicle manufacturing industry via merging with a state-owned commercial vehicle manufacturer. Around September 2002 the company formally obtained the merger contract from the *Chengdu* government and was intensively engaged in finding proper strategic solutions for conducting this new business. It has provided a great chance for this study to closely observe the diversification strategy formation under the real time corporate setting.

In the following sections I start with explaining the organisational context under which this diversification strategy was unfolded. I then turn to illustrate this diversification strategy formation in detail.

## **4.2 The Corporate Context**

### **4.2.1 The founder**

Mr Fu, the founder of Fumin, born in 1947, had an uncommon life with diverse career experiences. He came from a low economic family background and suffered from his poor financial situation. He dropped his education when he was in middle school. Mr Fu then joined *Honglianshe*, a public transportation organisation in *Mianyang*, and began his career as being an ordinary worker. He conducted multiple services including transporting goods by tricycles or being a merchant to fix damaged vehicles etc. The coming Cultural Revolution changed his life dramatically for it was then that he stepped into a political career. Mr Fu was an active organiser in social activities and was elected as the leader of the Rebel Party in *Honglianshe* due to his organising ability. Later Mr Fu joined the CPC and was then promoted to Vice Secretary of the CPC in *Mianyang* county. In the later stage of the Cultural Revolution, the central committee of the CPC corrected its political route and refocused its task from ideological revolution to economic reconstruction. Mr Fu was censored by the CPC in *Mianyang* and in 1978 was sentenced to one-year imprisonment because of his involvement in the Rebel Party during the Cultural Revolution. After he came out of prison, Mr Fu

returned to *Honglianshe* and became a middle manager who was responsible for the service of selling food and drinks to passengers. However, due to his previous experience of imprisonment Mr. Fu received bias from the organisation and found it was difficult to achieve his career ambition. Therefore in 1986, Mr Fu resigned his job resolutely and set up his own business which manufactured feather-down products. The history of Fumin's growth would be illustrated in Section 4.2.2. After so many years of personal business expansion, Mr Fu's political and economic status has been improved dramatically. Besides his personal wealth, he has held diversified political titles in governments, including membership in the standing committee of the *Mianyang* People's Congress, membership of the *Mianyang* Committee of Political Consultative Conference, the *Sichuan* Committee of Political Consultative Conference, the National Association of Industry and Commerce.

Mr Fu's early rough experiences have contributed to his strong need for achievement, as one internal consultant who has known him for more than 30 years commented:

'Due to his low economic family background, Mr Fu had struggled for survival since he was very little. These rough experiences gave him a strong desire for personal achievement.' (One internal consultant)

One senior manager had a similar comment on Mr Fu:

'Mr Fu has a very strong need for achievement and high self-esteem. He has a high sense of honour and likes to be acknowledged by the society. He is crazy for work and treats his business as his life.' (One senior manager)

Mr Fu's high need for achievement was also reflected in his 'unlimited' (the general manager) ambition for growth. By 2002, Fumin had grown into a big conglomerate operating in five unrelated business areas. Mr Fu also showed his 'boldness', 'courage' and 'resolution' when he made strategic decisions:

'Mr Fu was very bold and daring to take big risks. On some critical issues, he would dare to make decisions which other people would not take...On this point, I am far less risky than him. ' (the general manager)

Inside the company Fu presented an authoritative father figure to his subordinates. Major strategic issues were all handled by Mr Fu. His subordinates were used to leaving important issues for him to decide:

‘We thought very little about the strategy. All big decisions have to be left to Fu.’ (One middle manager)

Mr Fu was also famous for his *renqing* (human feelings) management style. He built up a strong friendship with the majority of his subordinates. For some of his excellent managers he would try his best to look after their personal interests. This strong affection between Mr Fu and his subordinates has formed a strong mechanism to attract devotion. His general manager has left his family in America and would like to create a future with Mr Fu, as he explained:

‘It is not purely a working relationship between Mr Fu and me. I work for Fu because of the trust and friendship between us... I have refused some opportunities to work for Western firms where the relationship among people is simple but cold. After a period of time, I became specially missing the Chinese *renqing*. It is not an easy thing to gain trust from people...Compared with Western companies, it has certain advantages and disadvantages. On one hand, if you mix up emotion with other corporate issues, it would become extremely difficult for you to make decisions. On the other hand, you will feel more involved and attached to the company.’  
(the general manager)

However this strong affection also made Mr Fu hesitant when handling key staffing issues. For instance, it would be very difficult for Mr Fu to degrade managers who have made historical contributions, even though they were obviously incapable in their new positions.

## **4.2.2 The historical development**

### **Setting up a new enterprise**

In 1986 Mr Fu created Fumin which focused on the feather-down business comprising of feather production and manufacturing feather-down clothing. During 1986 to

1992, Mr Fu expanded his feather-down business to *Shenzhen* and even opened an office in Moscow, Russia. However owing to Mr Fu's inexperience in business and the chaotic market orders caused by transformation of Chinese economy, Mr Fu's business suffered from several fraudulent incidents. For instance, the good-quality feather products he ordered had once been substituted by some counterfeit goods. In 1993 one fraudulent incident happened when one employee in the Moscow branch stole the company's products totalling up to £ 418, 410.00 (¥6 million). This put Fumin into an extremely hard financial situation. In addition, the sale of the feather down clothing was not satisfactory because the old fashion designs used could not meet with customers requirements. By 1992, the feather-down business only provided limited growth for the company. Mr Fu felt disappointed with his business and intended to develop into some new areas.

### **Diversifying into the real estate development industry**

In 1993 the *Mianyang* government decided to sell the usufruct<sup>3</sup> of the *Anchang* River Dockland by auction. Meanwhile, Mr Fu was positively looking for new business opportunities. When he heard this news Mr Fu made a very bold decision to buy the usufruct of the *Anchang* River Dockland and diversifying into the real estate business. According to Mr Fu's retrospect:

‘At that time, that land was near to the river, I had special emotions towards rivers. I felt this land would have potential value for real estate development. In addition, there was only one real estate developer in *Mianyang*, while the need for commercial and residential buildings was huge. Therefore, when I heard this information, I decided I must get this land.’ (Fu)

Fu's bold decision caused many objections from inside the company. The major reason was that Fumin did not own any knowledge about the real estate industry and therefore this decision was too risky.

‘There were only a few people to support Fu in this decision, but he defeated all the opposed opinions! He believed that the real estate development would become a new growing point for Fumin. Fu thought it was

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<sup>3</sup>In China, all the land except a small part of rural land belongs to the nation. Organisations and individuals can only gain the right of using the land.

not necessary to convince his subordinates because they had no ideas of this new business. At that time, he got some support from his friends in the government and the banks.’ (Fu’s son, the assistant general manager)

Mr Fu successfully acquired the land of *Anchang* River Dockland. Then Fumin began to develop commercial and residential buildings. Beyond all expectations, the flats they were building were completely sold out before the development had been completed. This was a great success in Fumin’s history.

‘This was my first bucket of gold! Two factors were crucial for this success. The first was that we had a good vision; the second was I got a lot of help from my friends, such as one expert in real estate industry.’ (Fu)

Mr Fu’s son added some other reasons for the success of this decision:

‘This success was attributed to three factors: good vision and great courage of Mr Fu; good relationship with the local government; strong support from his friends in the financial circle.’ (Fu’s son, the assistant general manager)

This encouraging success strengthened the belief of Fumin in carrying on its real estate development business which laid the solid foundation for future development.

### **Growth by mergers & acquisitions (M&As)**

After 1994, Fumin began to merge and acquire small and medium-sized CSEs so as to accumulate some high quality land for future property development.

Since 1978 how to reform CSEs had been a key issue for the Chinese government. At the Fifth Plenary Session of the 14th Party Central Committee in 1995 the CPC proposed that aiming to improve productivity of CSEs, the government should effectuate a policy of ‘strategic reorganisation of CSEs’ by focusing on large CSEs whilst adopting a flexible policy towards small and medium ones (CPC, 1995). A flexible policy towards small and medium ones meant to relax the control over them by ways of reorganisation, merger, leasing, contract operation, joint stock partnership or sell-off. The

large CSEs should retreat from the majority of competitive industries and concentrate on some industries relating to national security and public service, like the defence industry etc (CPC, 1999). Following the policy of 'strategic reorganisation of CSEs', a large number of CSEs have been released to the society and many opportunities have been generated for CPEs to diversify into new business areas. For example, CPEs gained more freedom to enter certain industries which were traditionally controlled by the state sector, like hospital service and education industry etc. In addition, CPEs were given opportunities to join the competition of obtaining enormous resources including land released by the state sector.

In China, local governments are responsible for the development of local state enterprises, the majority of them being small and medium sized. Because of their lack of competitiveness in the transitional market economy, many companies stepped into bankruptcy and became heavy burdens on local governments. To find a buyer or merger that was willing to take on these bankrupt companies was not an easy task for local governments especially in the initial years of implementing the reorganisation strategy of CSEs. As the Vice Mayor of *Mianyang* remarked with great emotion:

'In 1997, I was fully responsible for the reorganisation of the *Mianyang* Warp and Weft Knitting Factory. I had to look after all its 1184 employees and was also responsible for its state assets. It was so difficult to find a buyer. I contacted nearly all the enterprises in *Mianyang*, but none of them were willing to take it on. So, if the government did not sell it at a cheaper price, who would dare to come and buy it? Finally, I convinced Mr Fu. He agreed to take it.' (the Vice Mayor of *Mianyang*)

Consequently the cost of merging or acquiring was negotiable although conditional on many complex factors such as personal *guanxi* with local government officials, the degree of urgency to reorganise CSEs, the quality of state assets etc.

In 1994 Fumin acquired the *Mianyang* Electric Security Equipment Factory which lingered on the edge of bankruptcy. Fumin agreed to take over many costs such as providing a compensation package for laid-off employees etc. For a favourable feedback, the local government charged a cheaper price for using the land of the Electric Factory. Later Fumin closed down its electric business and developed commercial and residential buildings.

However at first the staff found it hard to accept the decision to acquire this company:

‘When we acquired the Electric Security Equipment Factory in 1994 we felt it might be a big risk and a big burden for us, because at that time the government policy towards the small CSEs was not clear at all. We did it only based on Mr Fu’s feelings. However, the profit from this acquisition was encouraging. After 1996 when the central government clarified the policy of managing large enterprises while adopting a flexible policy towards small and medium-sized ones, we became very clear that growth by merging and acquiring was right. This success was attributed to Mr Fu’s sensitivity towards the party policies and also his courage. Mr Fu’s political career had helped him attain a very good vision.’ (One senior manager)

With the increasing involvement in reorganising CSEs, M&As became the major ways for Fumin to accumulate cheap land and gain fast growth in property development. The assets of the company totalled up to £ 8.72 million (¥125 million) by 1995, nearly five times more than the amount of £ 1.74 million (¥25 million) in 1992.

‘It was because of these M&As that Fumin expanded so quickly. Our basic purpose for these M&As was to get cheaper land. These M&As have resulted in an accumulation of an amount of well-located land for future real estate development.’ (Fu)

‘Fumin’s rapid expansion was inseparable from the policy of strategic re-organisation of CSEs. This policy provided a favourable macro environment for Fumin’s fast development.’ (the Vice Mayor of *Mianyang*)

By the end of 2002 Fumin had merged seventeen CSEs. The assets of the company totalled up to £ 103.14 million (¥1479 million) by 2002, representing approximately 12 times the 1995 amount of £ 8.72 million (¥125 million). Mr Fu therefore enjoyed the title of ‘king of mergers and acquisitions’ in the business circle in *Sichuan* province.

### **Multi-unrelated diversification**

After 1996 Fumin began to diversify intensively into many unrelated areas to seek further growth. By 2002, Fumin's business had covered five broad areas including property development, manufacturing, commerce, hospital service and public transportation businesses.

Mr Fu had his own business philosophy to run his company:

'I am used to doing things with a backup plan. I can not put all my eggs into one basket! I have to diversify into different areas, even though some managerial experts hate it so much.' (Fu)

Driven by Mr Fu's philosophy the diversification in Fumin appeared to be dramatically opportunistic.

'The way of diversifying generally relied on mergers which originally aimed to develop property. During the process of merging, if we found the merged business had potential, we would diversify into it. You could say Fumin was an extremely opportunity-driven company. Most of our diversification decisions were not based on strategic planning.'(the general manager)

For instance in 2001 the *Mianyang* government intended to reorganise three public transportation companies and move their coach stations to new areas. Their original locations were ideal for property development. Fumin found the public transportation business was potentially profitable. Therefore, by merging with these local transportation companies, Fumin diversified into this business. By these means, Fumin created its transportation group. Similarly in 1999, with a request to construct new buildings for a state owned hospital, Fumin became the largest stakeholder in this hospital. Since then Fumin has grown in the hospital service via merging or acquiring state-owned hospitals. In the meantime, Fumin actively sought more opportunities for growth. In 1996, with the development of commercial buildings, Fumin set up several companies to trade the goods between *Mianyang* and other areas.

The above four major businesses, including property development, transportation service, hospital service and trading were mainly categorised as service industries. Due to the features of the service industry, Fumin was mainly a localised company operating in the *Sichuan* area. In order to grow to national level and gain a much wider recognition, strengthening and expanding manufacturing businesses was always a major concern inside Mr Fu's mind. In 1997, Fumin created Precision Machining Company that produced parts for vehicle engines. Several other subsidiaries, such as Vacuum Die-Casting Company etc. were created. In 2001, Fumin began to diversify into the commercial vehicle manufacturing business via merging with a large state-owned vehicle manufacturer. The investment for this diversification would reach several hundred million Chinese Yuan, the largest project so far in Fumin's history. By 2003, Fumin had built up a large organisation with sixteen subsidiaries in five broad business areas. The corporate structure will be described in the next section.

### **4.2.3 The corporate structure**

In 2003, Fumin had sixteen subsidiaries, which respectively reported to the headquarters (see 4.1).

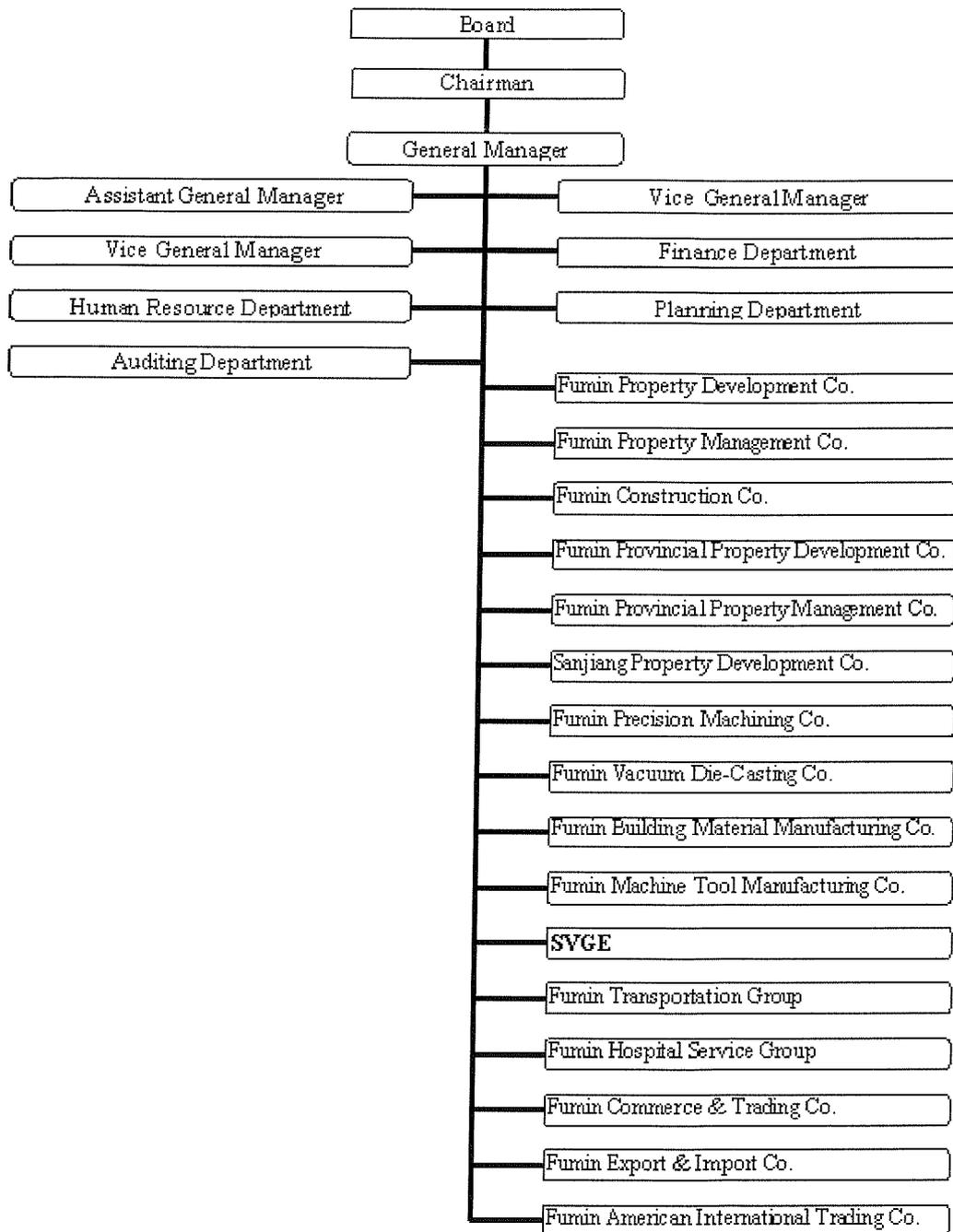


Figure 4.1: The corporate structure in 2003

Regarding its real estate development business, Fumin's major markets were in the *Mianyang* and *Chengdu* areas. There were six subsidiaries committed to this business. Its products included commercial and residential buildings and property management. Its residential buildings covered a wide range of products from economic residential buildings to luxury villas. The competition in the property development area was extremely fierce with several hundred property developers alone in the *Mianyang* area. Despite ruthless competition, Fumin was a famous brand in the *Mianyang* area due to its reasonable price, stylish design and quality products. Most of the time demand outstripped supply. In the *Chengdu* area, Fumin was still a relatively new brand, and faced serious competition from several strong national property developers. However its status was gradually rising. In 2002, its property business represented 54% of the corporate revenue. Nearly 70% of the total profit was coming from this sector.

In relation to the manufacturing business, it was still a relatively new business area for Fumin. This group was gradually expanding with diversified production lines ranging from hydraulic components, building materials to machine-shop equipments. In 2003, Fumin began to manufacture commercial vehicles by merging with SVGE. Its product range was expanding. However, from the financial perspective, the performance in this sector was not satisfying. In 2002 this business only stood for 10% of the total revenue, less than 10% of the total profit. All these products have a strong market potential. The key obstacle to hinder their growth was due to limited financial input. Production capability could not keep up with the growth of the markets.

The transportation and hospital businesses were still very new within Fumin. They only represented 4% and 2% of the corporate revenue in 2002. In current stage, these two businesses are still at the cultivation stage, especially the hospital business. In China, until recently, a state-owned system of hospital services has been opened up to private investment. For instance, many state-owned hospitals were permitted to cooperate with Private Enterprises. Mr Fu saw this reforming process as another huge opportunity for Fumin's growth in the future.

The commerce business accounted for the remaining 30% of revenue in 2002, although it represented less than 10% of the total profit due to its low margin of trading industry. Mr Fu never paid serious attention to this business.

After so many years development, Fumin was still a limited liability company without going public. In China, going public for CPEs requires strict supervision from local governments. Generally, local governments would give preference for listing in stock markets to CSEs.

As for the relationship between headquarters and these subsidiaries, all revenues and profits generated from subsidiaries went to the headquarters, who would allocate resources based on an agreed annual budget between them. Moreover, headquarters also controlled employment of all important staff in its subsidiary companies, such as the head of the subsidiaries. Furthermore, the finance department in each subsidiary was delegated by headquarters and directly reported to the corporate finance department. The head of each subsidiary did not even have rights to influence major decisions made by their own finance department.

Currently the biggest challenge for Fumin was to strengthen its managerial capabilities. Most of the corporate resources had focused on seizing opportunities from the external environment; less attention had been paid to improving managerial capabilities inside the group. Many affairs were run by experiences and personal direct orders rather than following certain procedures. Some serious mistakes had been caused, for instance, the decline of product quality etc. It was from the year 2000 that headquarters gradually changed its focus into the formulation of varied corporate policies, such as planning, personnel and financial policies etc.

‘Fumin was a fast growing company, but not mature. It was not because we lacked financial capital, but because we lacked managerial skills. I told my managers every time to follow certain procedures rather than act like guerrillas. However, it was extremely difficult to turn them into a regular army.’ (One senior manager)

As an important reform to strengthen corporate managerial capabilities, Mr Fu introduced one professional manager to carry out his managerial responsibility. In the March 2002 Mr Fu stepped back from the position of general manager, where he was responsible for daily managerial activities, to be the chairman, where he could focus on more strategic issues within the group. The general manager had worked for Fumin’s American subsidiary for five years with an official background and once served for

central government, he also holds an American MBA degree. He was assisted by three senior managers. One position, Assistant General Manager, was given to Mr Fu's son, who was delegated to look after all businesses in the *Chengdu* area from 2002. The other two senior managers had followed Mr Fu for nearly ten years and were very loyal to him. One was in charge of public relationships and part of the property development services; another was responsible for corporate legal affairs and also part of the property businesses. The responsibility of this top management team was to administrate regular corporate activities. Important strategic issues would have to be passed to Mr Fu for his decision, for instance, issues relating to entering new business areas, important staffing etc.

In 2003, Mr Fu formed the corporate board with eight members. However, not all the board members have investments in the group. Mr Fu holds around 70% of corporate investment with the remaining investment dispersed between his other four family members. Currently the board has no significant influence on corporate affairs.

#### **4.2.4 The corporate strategy**

As a famous localised company, Mr Fu has a great ambition to take Fumin into a *bainian* (centennial) enterprise, which refers to an enterprise that can survive more than one hundred years. This is reflected in Mr Fu's personal strong long-term growth orientation, as the general manager commented:

'Fu's ambition for expanding was unlimited... He believed that the first priority of Fumin was to grow; he tried to avoid facing the financial problems the expansion had brought. Sooner or later, it would cause serious problems.' (the general manager)

However, based on comments from senior managers, the *bainian* (centennial) vision currently only stayed at a conceptual level:

'It is only a concept for us to develop into a *bainian* (centennial) enterprise. To achieve a *bainian* (centennial) enterprise, it needs long-term, middle-term and short-term strategic planning. To be honest, we are far from that position based on our current capabilities.' (the general manager)

The most conflicting strategic issue inside the organisation relates to its portfolio management. Mr Fu's philosophy of 'never putting all your eggs into one basket' has led Fumin to grow into a five unrelated and diversified conglomerate. Despite Fumin having already diversified into five unrelated areas, Mr Fu still does not believe that Fumin has found a proper business scope which could sustain the company into a *bainian* (centennial) enterprise:

'We have not found the proper industries which would suit Fumin and sustain the company for more than 100 years. The real estate development business was only one means of accumulating capital for future development. Our real future business should be in the areas of manufacturing, public transportation and hospital service.' (Fu)

Mr Fu argued that the real estate business can only support Fumin for ten years. Firstly, this industry was heavily regulated by governments. If the central government adopted constrained policies, such as prohibiting bank loans flowing to real estate developers, Fumin would quickly fall into a difficult situation. Secondly, the supply of residential buildings had far outnumbered the demand due to current inadequate purchasing power and fierce competition in the property development industry. Thirdly, the land Fumin had accumulated could only sustain its property development for ten years; land would be extremely difficult to acquire in the future. Therefore, Fumin had to expand into some new areas in order to survive in the future. Mr Fu paid great attention to his manufacturing businesses and believed in its growth potential. In addition, Mr Fu appreciated his hospital business and thought it may be difficult to find one centennial enterprise, whereas it would possibly be easy to find one centennial hospital. It has been estimated that ten thousand state-owned hospitals would be privatised in the next ten years. This would provide enormous space for Fumin to grow. Finally, public transportation is a relatively localised industry and can bring stable income to the corporation.

However, many managers interviewed suggested that the company needed a clear focused strategy to guide the company into the future, as one manager explained:

'If we intend to diversify, we should diversify into related areas. We should be focused... Currently we do not have a clear strategic goal and also no strategic planning to help us achieve the goal.' (One senior manager)

Most managers including the general manager believed that Fumin should focus on its property development business and grow it into a strong business at national level. They argued that the dispersion of financial capital into five unrelated areas had seriously blocked further growth of its real estate business, and would possibly threaten the security of the whole company. These conflicting opinions on corporate strategy have attracted enormous informal arguments, debate and discussions inside the organisation. However, as a large single-owner controlled company, Fumin mainly reflected Mr Fu's intentions, and adopted an unrelated diversification strategy.

Relating to the practice of developing strategies, the company has shown strong characteristics of opportunity-taking. Even though the corporate planning department has been set up since 1997, the function of this department was more confined to supporting specific projects of subsidiary companies. There was no corporate intelligence system and no business analysts to look after the corporate strategy at group level. This task was actually conducted solely by Mr Fu, even his general manager and senior managers have assumed that this responsibility should belong to Mr Fu himself.

### **4.3 Diversifying into the Commercial Vehicle Manufacturing Industry**

This section provides a detailed description relating to the strategy formation of diversifying into the commercial vehicle manufacturing industry. Several major activities were identified and explained in detail. However, the structure in this section by no means suggests that these activities follow a simple sequential order with each other. On the contrary, overlapping and reiteration were common practice in this case.

#### **4.3.1 Initiating the strategic concept**

By the end of 2001, Mr Fu received information from his personal friend, the head of the People's Bank of *Mianyang*, that *Sichuan Vehicles Group Enterprise (SVGE)* located in the provincial capital of *Chengdu*, intended to sell one piece of its land in order to pay salary arrears to its employees. SVGE was a large state enterprise that

belonged to the *Chengdu* government. In the beginning of the 1990s, SVGE developed into the largest commercial vehicles manufacturer in Southwest China, and held several licences for producing coaches or buses, cross-country vehicles and chassis. Its cross-country vehicles, with the brand name of 'Yema', enjoyed a high reputation in the Southwest Chinese market before 1995. However, with increasing competition from foreign and domestic vehicle producers after 1995, the demand for SVGE's products dropped quickly. The managerial team, delegated by the local government, gradually lost confidence in their own products. From 1999 to 2000 SVGE could not even afford to pay its employees basic salaries. The annual yield almost dropped to zero in 2000, with a heavy debt of around £ 3.49 million (¥50 million). At the end of 2000, the managerial team in SVGE proposed to the *Chengdu* government that SVGE had to regenerate itself via introducing outside partners so as to get new financial and technological input. The *Chengdu* government was also urged to reorganise SVGE due to increasing pressure and financial burden imposed by the employees of SVGE. All the employees in SVGE were encouraged to find information about potential partners. In 2001, the managerial team in SVGE intended to shut down one of its factories and sell the usufruct of one piece of land in order to pay the salary arrears to their employees as a short term solution.

When he heard this information Mr Fu asked Lee who was at that time responsible for all the businesses in *Chengdu* area to give a brief evaluation of that piece of land. The result from Lee was positive, the land was worth around £ 11.16 million (¥160 million) and had a great potential for future property development. However, the offer from SVGE required Fumin to pay the total amount in cash in a very short period. This would put Fumin under huge financial pressure. Lee proposed another solution of merging with SVGE instead of buying the land. After frequent contact with SVGE, Lee and his subordinates figured out that the merger might possibly be more profitable than purely buying the piece of land. It was estimated that commercial value of all the land in SVGE would reach £ 24.41 million (¥350 million); whereas the immediate cost of the merger was just £ 16.04 million (¥230 million) (see 4.3.2 for explanations of the immediate cost). More importantly, if the merger was successful, Fumin would gain access to the commercial vehicle manufacturing industry via SVGE. Lee knew that any idea relating to the vehicle manufacturing industry would immediately attract Mr Fu's attention and interest, as he noted:

‘Via merging with SVGE, we can get a large amount of good land. Besides this benefit, we can get another industry (the vehicle manufacturing industry)...Mr Fu had intended to make vehicles since he was a teenager. He wants to accomplish his dream.’ (Lee)

Fu’s desire for a vehicle business could be traced back to the period when he worked for *Honglianshe*, a company that provided goods and passenger transportation services in *Miayang* in the 1960s. There were only a few vehicles in the goods transportation department; the majority of the work had to be carried out using pedal power. For instance, Mr Fu had to transfer goods by pedalling tri-cycles. He suffered from these working conditions and dreamed of using power-driven vehicles instead of hard labour to make his life more easy and comfortable. In 1963, Mr Fu successfully assembled one power-driven tricycle, called ‘*Yongxiangqian*’ (moving forward forever), by fitting a diesel-engine into his tricycle. This experience brought Mr Fu a life-long personal desire to have his own vehicle manufacturing business. In Fumin, every senior manager knew Mr Fu’s personal history and understood his desire to own his own vehicle manufacturing company.

‘Mr Fu had some experience with vehicles when he was young. He even created his own engine-driven vehicle, a ‘*Yongxiangqian*’. He had a strong vehicle dream inside his heart.’ (Fu’s son, the assistant general manager)

‘Mr Fu has had this vehicle dream for so many years. He told me that he was keen to own his vehicle business since he was a teenager.’ (One senior manager)

After Mr Fu had set up his own company and accumulated a certain amount of capital, he constantly sought opportunities to step into the vehicle manufacturing industry. For instance, in 1998 Lee successfully gained a contract of merging with the *Sichuan Shanchuan* Vehicle Factory from the *Sichuan* provincial government. However, due to the very poor capabilities of the *Sichuan Shanchuan* Vehicle Factory in manufacturing vehicles, Mr Fu abandoned his original idea of diversifying into the vehicle industry via the *Shanchuan* Vehicle Factory and dismantled all its business. All the released land was utilised for property development.

When Lee explained to Mr Fu that the merger would possibly bring the potential for profit, and that Fumin could also take advantage of SVGE to diversify into the commercial vehicle manufacturing business, Mr Fu immediately agreed with his idea and asked Lee to carry on investigating SVGE. Mr Fu believed this merger would become a great chance for Fumin to succeed in the vehicle manufacturing industry, he even regarded it as 'God's will' which encouraged him to realise his personal dream. He planned to use the profit derived from property development based on the land of SVGE, to finance his future vehicle business and treated this merger as risk free.

'Undoubtedly, I can make money purely based on the land in SVGE. Then I will use the money earned from the property development to finance and develop my vehicle business. Such a chance! Why not do that?!' (Fu)

Within the company the senior managers at the headquarters were not informed. However, varied guesses flew around the headquarters, and nobody knew exactly what was going on in *Chengdu*. Mr Fu determined to develop his own vehicle manufacturing business:

'The merger with SVGE was purely aimed at entering into the vehicle manufacturing industry. The land in SVGE was valuable, the chances of getting such good land were a lot in some other areas...The major purpose of this merger was to obtain the vehicle production platform from SVGE... From this merger project, the profit could be between £ 6.97 million (¥100 million) and £ 13.95 million (¥200 million). I will invest these profits into my vehicle business. This solution holds no risk.' (Fu)

### **4.3.2 Acquiring the merger contract**

In February 2002, Lee and his managers sent a merger proposal to the *Chengdu* government. According to the *Chengdu* government, if Fumin intended to merge with SVGE, the basic premise was that Fumin would continue SVGE's commercial vehicle manufacturing business after the merger. As mentioned before, SVGE was once ranked top of the Southwest Chinese vehicle market. The local government has put much effort to cultivate the vehicle manufacturing industry in *Sichuan* province, for

example, assisting SVGE to obtain various licenses from the central government. The provincial and *Chengdu* governments would not like to lose this industry. Therefore, accepting the merger contract would mean a serious promise to the local governments from Fumin that it would diversify into the commercial vehicle manufacturing industry no matter what happened after the merger.

Besides this promise, there were three major merger costs Fumin had to take over: £ 3.49 million (¥50 million) debt of SVGE; £ 5.58 million (¥80 million) for rearranging SVGE's employees, such as compensation for laid-off workers, pension for retired employees etc; the fee of £ 6.97 million (¥100 million) for changing the usage of land in SVGE from industrial land to commercial land. In 2002, the *Chengdu* government issued one land policy to encourage all the factories located in the original eastern suburb area (also the location of SVGE), presently the city centre, to shift to the newly-built industrial park. The eastern suburb area would become the commercial land for developing commercial and residential buildings in the future. The factories that could manage to move out before the end of 2003 would pay 5% of the difference between the rate for the usufruct of the industrial land and the rate for the commercial land to the *Chengdu* government, whilst in 2004 it would rise to 20%. This was called the 'Dongtiao Policy' (The land policy for original eastern suburb of *Chengdu*). Based on the *Dongtiao* policy, if SVGE could manage to move out by 2003 the fees would be reduced by around £ 3.49 million (¥50 million). In terms of benefit, it was estimated that value of the land in SVGE would increase to around £ 24.41 million (¥350 million) if changed into commercial use. The net profit, purely derived from the land, would reach around £ 10.46 million (¥150 million). In addition, SVGE had a series of vehicle manufacturing licenses and fixed assets that would be particularly valuable for the future vehicle business development.

In the first half of 2002, the competition for winning this merger contract was extremely intense. More than ten corporations were involved; half of them were famous domestic vehicle manufactures. Based on the requirement of the *Chengdu* government, the merger proposal should contain two parts: the first was the Employees Arrangement Solution that dealt with the issues of rearranging SVGE's employment etc; the second was the Vehicle Development Solution that referred to the strategic plan of regenerating SVGE's vehicle manufacturing business. For the *Chengdu* government, the biggest concern was to silence angry voices and demonstrations from more than

2000 employees in SVGE. After several years deterioration, the staff in SVGE simply put all the blame on the *Chengdu* and *Sichuan* provincial governments by means of demonstrations etc. It was an urgent issue for local governments to find a way out for SVGE's employees.

Fumin's advantage existed in its rich experience of handling the merger projects. In 1998 and 2000, Fumin successfully merged with two companies which belonged to the provincial government. All the disputes and conflicts from these mergers were settled and the interests of employees were well looked after after the mergers. When the managerial team in SVGE went to consult the *Chengdu* government, the *Chengdu* government referred to Fumin as a strong and reliable corporation. However, Fumin's lack of capabilities in the vehicle manufacturing industry made local governments and SVGE suspicious of SVGE's future after the merger. As a consequence, key decision makers in local governments and SVGE were not sure whether or not they should support Fumin.

In June 2002, an accident occurred, which became a turning point for Fumin to win the merger contract with SVGE. A staff member from SVGE dropped from a high building and died for unknown reasons. Many employees of SVGE regarded this accident as a suicide caused by their long-lasting poverty. Therefore, for the purpose of getting their deferred salary payment, more than 2000 employees in SVGE demonstrated in front of the provincial government office. The traffic was stopped and ordinary official work could not carry on. The provincial government urgently required that companies, who joined the competition, pay £ 418, 410. 04 million (¥6 million) in advance to employees so as to seal the peace. For its reward, this company would be taken into consideration for a potential successful candidature. Mr Fu actively responded to this requirement and immediately transferred this money to SVGE so as to relieve the difficult situation of the employees. However other competitors would not like to take this risk. This move enormously strengthened the relationship between Fumin and the provincial government. After this accident, Lee frequently organised the representative of the employees in SVGE to visit Fumin. During their visit, Mr Fu reiterated his determination to develop SVGE's vehicle business. As one original senior manager in SVGE recalled:

‘When we went to visit Fumin, Chairman Fu delivered a very touching speech. He emphasised his three opinions. Firstly, the major purpose of merging with SVGE was to develop the vehicle business, not for property development. Fumin would not give up the vehicle production. Secondly, Fumin would open its arms to welcome all the original technicians in SVGE to stay in the newly merged company. Thirdly, he did not intend to get the £ 418, 410. 04 (¥6 million) relief money back even if he could not win this merger contract.’ (One original senior manager in SVGE)

This speech reassured SVGE of Mr Fu’s determination to develop the vehicle business. Meanwhile, Lee utilised his rich experience in merger projects to demonstrate the merging procedure and the benefits it held for individual employees. As a result of all these efforts, enormous trust had been built between SVGE and Fumin. In July 2002, the majority of employees in SVGE voted for Fumin to merge with their company. Moreover, the local governments were very happy with Mr Fu’s help in their most urgent time. In addition, because Fumin had successfully merged with two CSEs in the *Chengdu* area, local governments praised Fumin as a highly ‘reliable’ and ‘trustworthy’ company. In September 2002, local governments sanctioned the formal merger contract between Fumin and SVGE. One original senior manager in SVGE commented on Fumin’s success of winning this merger contract:

‘Firstly, this success attributed to good communication with the local governments, Lee was very familiar with local officials... Secondly, Fumin had a thorough understanding of our company. Lee and his managerial team were very sincere to help us during the whole process. The opinions they proposed were very helpful and pragmatic. Furthermore, Fumin had a high reputation in the local governments...’ (One original senior manager in SVGE)

### **4.3.3 Setting up a strategic principle**

Senior managers in the headquarters were not directly involved in winning this merger contract. The majority of employees in the headquarters only knew that Lee was conducting a merger in the *Chengdu* area, but did not know what exactly was going on

and what the plan would be for the future. Mr Fu did not hold any formal meeting with his senior managers to discuss the issues relating to diversifying into the commercial vehicle manufacturing industry, as he explained:

‘For some decisions, if I was not sure they were right or wrong, I would consult various departments and listen to their opinions...But for some decisions, I felt I would definitely win. For instance, diversifying into the vehicle business, I do not need discussion with my management team, I must do it! I do not care who would object to it. There won’t be time to prove! Time does not allow you to be indecisive. We must have speed!’  
(Fu)

After March 2002, the organisational structure of the company changed. Mr Fu appointed one general manager to carry out his responsibility. He stepped back as the chairman and focused on the most important strategic issues in the company. However, Lee still reported directly to Mr Fu without informing the general manager or other senior managers, he accounted it for the malfunction of new organisational structure:

‘In the first-half year of 2002, due to the adjustment of organisational structure, the top managerial team did not work functionally. Because I am familiar with the business in *Chengdu*, the Chairman always asked me to deal with the issues happening in *Chengdu*. Fu did not ask me to consult the top management team.’ (Lee)

After Fumin had won the merger contract in September 2002, Mr Fu organised the first meeting to discuss the vehicle manufacturing issues with his managerial team at the headquarters. It was at this first meeting that Mr Fu declared formally that Fumin would diversify into the vehicle business. Mr Fu set a strategic principle to his managers:

‘Today we will not discuss whether or not Fumin should enter into the vehicle business, instead, we will just discuss how to do it. I will take full responsibility for all the mistakes derived from this decision.’ (Fu)

Afterwards, Lee briefly reported the process of winning the merger contract with SVGE. For the next stage, he suggested constructing five committees to steer the merging process. One was the planning committee, which would take charge of formulating the strategic plan for the development of the vehicle business in the future. The others were a financial committee which would look after all the financial related issues; an operational committee would remobilise the whole production line that had been deserted for three years; a personnel committee would examine and reorganise human capital in SVGE; a logistics committee would look after the auxiliary issues that remained. Lee pleaded for coordination from the headquarters. The personnel involved in these committees would be between twenty to thirty. £ 3.49 million (¥50 million) cash should be put into SVGE's account by October 2002 as the initial financial input of the oncoming merging process. Mr Fu agreed with this plan and asked his senior managers to assist Lee with implementing it.

During the whole meeting, most managers were highly shocked and reluctant to accept Mr Fu's decision of entering into the vehicle business. They assumed that this merger aimed at more land rather than diversifying into the commercial vehicle manufacturing industry. In addition, it was impossible for Fumin to digest this new vehicle manufacturing business. Furthermore, little information had been collected by the *Chengdu* Division regarding this new industry. Lee and his subordinates put much effort to measure the value of the land, whereas payed little attention to the vehicle manufacturing industry. Consequently all the senior managers had no idea or knowledge of this new business. However, nobody dare to say a word against this decision in the meeting after Mr Fu had set up a firm strategic principle. Only the general manager expressed his concern at the end of meeting:

'Since everything has been decided, we will implement it based on your arrangement. However, I think entering into the vehicle industry would become a great risk for Fumin because we currently do not have enough financial and personnel support.' (the general manager)

However, Mr Fu was not particularly concerned with Fumin's current resources situation. He had four simplified reasons to diversify into the commercial vehicle manufacturing industry. Firstly, he believed that there would be an increasing demand for commercial vehicles in Southwest China in the future. Secondly, after Fumin merged with

SVGE, Fumin would obtain a development platform for vehicle production. Thirdly, he promised the *Chengdu* government that no matter what happened Fumin would carry on SVGE's vehicle manufacturing business. Finally, he had a strong personal interest in the vehicle manufacturing industry. Putting all these factors together, he made his resolution of diversifying into the vehicle business from the very first moment that he gave support to Lee to win this merging contract. He also held strong faith that he would succeed in this business.

After the meeting negative opinions about entering into the vehicle business were widely circulated in the headquarters. The common worries, similar to the general manager's, were that Fumin did not possess the relevant capabilities including technology, finance and human capital to support this new business. The general manager regarded this strategy as a trap:

'For this vehicle project, if I were Mr Fu, I would not make judgement so quickly...You can not only look at the prospect of the vehicle market, you have to judge your own internal resources and see whether you are suitable or not. This project is good for you, but it does not mean it will be good for me...You should focus on your main business. This vehicle project will possibly lead us to our death.' (the general manager)

In the meantime, the majority of Fumin's subsidiaries lacked financial input. The fight for financial capital from different subsidiaries has resulted in an extremely intense relationship between the financial director and subsidiary managers. The new investment in the vehicle business would further disperse limited financial resources, and would possibly deteriorate Fumin's most profitable property development business.

However many employees, including most of the senior managers, dare not question Mr Fu on this strategy. Explicit conflict and debate could not be found inside the headquarters. Most senior managers did not like to hurt the relationship between Mr Fu and themselves so as to influence their future interests in this organisation. They either chose the stance of being inactive, or stood by Mr Fu's side. For those who stood by the boss, they attracted very suspicious comments from those who disagreed with this strategy, as one middle manager noted:

‘Some managers like to be creepy to Mr Fu. We lack people who have courage to tell the truth.’ (One middle manager)

This phenomenon was termed by some managers as ‘*duiren*’, which literally means to concern oneself with individuals rather than with facts (Wei, 2001, p. 245). Here, they used ‘*duiren*’ to represent one prevalent phenomenon of satisfying the boss (Fu) inside the organisation. For instance, Lee was directly blamed as an example of ‘*duiren*’ behaviour for his encouraging Mr Fu to step into the vehicle industry for the purpose of expanding his own power. The general manager was especially reluctant to co-operate with Lee. Consequently, Lee felt great pressure and antagonism from the headquarters. He explained that the decision of entering into the vehicle business was purely Mr Fu’s intention. He had no power to control the Chairman when making this important diversification strategy.

Due to the widespread concerns and worries arising from inside the headquarters, Mr Fu held a meeting only with those managers who seemed to be reluctant to cooperate, and told them with great passion and fury:

‘We must enter into the commercial vehicle manufacturing business, as we have already promised to the provincial government and the *Chengdu* government. Stop arguing! Trust me!’ (Fu)

Even though they were not convinced by Mr Fu, they clearly knew they had no other choices but to put Mr Fu’s decision forward. At the end of September 2002, the headquarters passed Lee’s plan; the personnel from financial department, planning department and auditing department formed steering committees to assist the *Chengdu* division to integrate SVGE into the group as a vehicle manufacturing subsidiary.

#### **4.3.4 Creating three imaginative solutions**

Once Mr Fu decided to enter into the vehicle industry, his biggest concern was how to develop this new business. Mr Fu had already thought about his vehicle business for a long time. He even traced his experience back to his teenage years, during which he assembled his first engine-driven vehicle. He was extremely proud of this invention, and regarded himself ‘familiar with the vehicle manufacturing industry’. Prior to

winning the merger contract, Mr Fu had already asked the corporate planning department to have an investigation into the Southwest Chinese vehicle market. However, the planning department had no expertise in vehicle manufacturing.

In China, the commercial vehicle manufacturing industry was under the strict supervision of central government by means of license management. After nearly thirty years development in this industry since the 1970s, there already exist hundreds of vehicle manufacturers. However, most manufacturers competed in the low-end of the market, for instance, non luxury coaches or buses. This resulted in fierce price competition and led to low technological input, poor quality of products and low profit margins for manufacturers. In addition, few manufacturers had capacity to meet the demands from the top-end market, for instance, luxurious coaches and high quality chassis. The top-end products had to rely heavily on the introduction of foreign vehicles. Therefore, the central government holds tight control over issuing new licenses in order to cultivate the vehicle industry into an effective competitive market so as to increase technology input and product quality. SVGE held several licences which enabled it to produce coaches or buses, cross-country vehicles and chassis. This platform would give Fumin great autonomy in the vehicle manufacturing business in the future.

Regarding coach or bus manufacturing, these were less technology intensive in comparison with cross-country vehicles and car manufacturing. Therefore, the barrier for Fumin to enter into coach or bus manufacturing was relatively low. In addition, in terms of market demand, it was estimated that the need for coaches would grow quickly in the future in the Southwest Chinese market, with annual demand of around 10, 000 coaches. *Sichuan* and *Chongqing*, as major provinces in the Southwest, had a population of more than 100 million and were extremely rich in tourism resources. Demand for in-city transportation was growing quickly. In addition, with implementation of the 'Developing the West' policy, central government has allocated enormous resources to improve the infrastructure in Western China. Road conditions in the Southwest have been greatly improved, for instance, motorways have been built to connect major cities in the Southwest. All these factors would contribute to boost the demand for coaches. However, until 2002, there was no strong market leader in the Southwestern market. Instead, many manufactures were small to medium sized and localised, with each occupying a small amount of market share.

In the middle of 2002, Mr Fu himself came up with three solutions, called them ‘*shexiang*’ (imagination), to guide the development of Fumin’s commercial vehicle business in the future. Those solutions were popularly labelled as ‘*da*’ (big), ‘*zhong*’ (middle) and ‘*xiao*’ (small). All the solutions targeted the coach manufacturing market. The ‘*da*’ (big) solution aimed to transform SVGE into a large coach manufacturing centre in the Southwestern Chinese market, with a capacity for a 10,000 total annual output. To achieve this goal, Fumin would introduce a foreign partner so as to obtain advanced technology and managerial skills. Mr Fu suggested that South Korean commercial vehicle manufacturers could be potential candidates due to their cost-cutting advantage. From his personal friend in the *Mianyang* government, Mr Fu was informed that the *Mianyang* government had established a good relationship with local governments in South Korea. This channel could be mobilised in the future. The ‘*zhong*’ (middle) solution was to reconstruct SVGE into a medium-sized coach manufacturer with acquiring experts and technology from famous domestic coach makers. The estimated annual yield should be around 5000. The ‘*xiao*’ (small) solution, the most reserved one, anticipated an annual output of 500 to 2000 coaches, mainly relying on internal resources. Considering coach manufacturing as being a new business for Fumin, the coach production would begin with purely assembling, with outsourcing major components, such as chassis and engines. After Fumin had accumulated enough technological and managerial experience in the coach market, it would become a complete coach manufacturing company.

During the development process of these solutions, support from inside the headquarters for Mr Fu was very limited. Even though he highly expected his management team should be more supportive and creative during this strategy formation, Mr Fu viewed himself as a major strategist inside the company. One senior manager expressed his concerns that Mr Fu’s authoritative decision style would inhibit initiatives from the lower level of management:

‘There were only few people in the company who could provide some creative ideas which would benefit our long term development. All the major decisions were made by Fu himself.’ (One senior manager)

Mr Fu expressed his three solutions in different managerial meetings. He told his steering committee and his managerial team to justify and further operationalise his three solutions and put them into practice.

#### **4.3.5 Remobilising the coach production**

Remobilising SVGE's coach production line was scheduled in September 2003 in order to test the market and experiment with some new types of coaches. However, it proved to be a long and painful process. Since the steering committees entered into SVGE, most of their energy went on handling employment issues. SVGE had around 2000 employees and 1000 retired staff. Without any production for nearly three years, there had been no cut down in employment. Some staff went to find other jobs, but still nominally belonged to the employment of SVGE. Cutting down the redundancy required huge amounts of compensation. In addition, 1000 retired staff needed pension scheme. Negotiations relating to the compensation and pension packages with the employees occupied the majority of the steering committees' time. From September to December 2002, 2000 employees were cut down by nearly 1700. In Jan 2003, SVGE was re-registered as a subsidiary of Fumin, retaining its name. In the meantime, steering committees were changed into the managerial team for this new organisation, with Lee as the head. The short-term plan for remobilising the production line was drafted, the aim was to experiment with four sample coaches before the end of January 2003. However, due to disagreements on the pension scheme between Fumin and the retired staff of SVGE, the campaign for a better scheme from around 1000 retired staff lasted for nearly five months. During this period, all the production lines had to stop again because no materials could be transported in or out of the factories due to physical barriers being set up by the retired employees. In May 2003, production lines were restarted again after the pension scheme had been agreed upon.

Many problems were discovered during this remobilising process. Firstly, SVGE's old 'Yema' brand had disappeared from the market several years ago, its lack of recognition greatly inhibited sales. Secondly, the facilities in SVGE's old factories could not support the modern coach body-making and assembling. Due to the lack of modern facilities, many extra labourers were involved, using their hands-on experience. The costs of the first few sample coaches were far beyond the markets average level. However,

in order to create a market, their coaches were sold at a cheaper price. Thirdly, SVGE lacked experienced human capital in the sales and technology department, meanwhile the highly-skilled staff were leaving continually. Most importantly, the current managerial team with Lee as the head had no expertise in managing the vehicle business. For instance, regarding issues of customer order management, quality control, supply chain etc. the management team were acting on impulse based on the very limited information and experience they had grasped. Some mistakes were made, for instance, the quality could not meet the customers requirements and after receiving orders, SVGE could not deliver them on time. As a result, the management team dare not expand production capacity and experiment on any new types of coaches. Only around 10 coaches were manufactured, while the total loss reached £ 17, 433. 75 (¥250,000) in 2003.

As one of the measures to solve the above problems, Mr Fu decided to launch a new factory with the input of most advanced technologies and facilities. Meanwhile Fumin could enjoy some financial benefits for building this new factory. Based on the *Dongtiao* Policy, SVGE's old factories had to be shifted to new industrial areas in the future. If SVGE could manage to finish major buildings for this new factory early, the *Chengdu* government would exempt certain fees for changing the usage of SVGE's original land. The cost of using SVGE's land was cut down by £ 3.49 million (¥50 million). This benefited Fumin's property business in the *Chengdu* area in the future. Moreover, the *Chengdu* government sold the usufruct of the land for building this new factory at a very cheap price. The new factory was built in the *Longquan* industrial area, a vehicle manufacturing base in *Chengdu*, with a first-stage investment of £ 2.79 million (¥40 million). The capacity would reach 2000 coach units per year after the first-stage investment, with a 4000 annual yield after the second-stage. By the middle of 2004, it was estimated that all the old plants of SVGE would be transferred to this new factory.

However, during this trial production, the managerial team of SVGE gained a much better understanding towards this commercial vehicle manufacturing industry by directly contacting customers, suppliers and competitors. Via this learning process, Mr Fu's '*xiao*' (small) solution, which referred to rely on itself to develop its vehicle business, has gradually been enriched. Relevant operational plans, for instance, the 2004 operational plan, have gradually come into shape.



### 4.3.6 Exploring strategic solutions

Alongside remobilising SVGE's original production lines, Fumin also intensively engaged to turn Mr Fu's principle into a detailed strategic solution. Even though some managers in the headquarters still held enormous doubts about Mr Fu's principle, they provided multiple excuses to assure themselves that Mr Fu was right. Some employees took a chance and gambled explaining that this strategy could possibly '*waida zhengzhao*' (score lucky hits):

'Some strategies will *waida zhengzhao* (score lucky hits). Initially we thought that these strategies were not made based on standards, but they were probably right according to the objective situations. Now is not the time now to judge whether or not this strategy is right. We should focus on seeking the best solution so as to achieve the best performance.' (One middle manager)

In addition, some managers in the headquarters put emphasis on implementing issues rather than the strategy itself. They believed that 'how' to put Mr Fu's principle into operation was a key determinant factor on the success of this diversification strategy, as one senior manager mentioned:

'The strategy itself has no problem. Implementers are key decisive factors. That is to say how to operationalise and implement this strategy will determine its success.' (One senior manager)

Therefore, Mr Fu's principle was not seriously challenged inside the company, even though many doubts existed in managers' minds.

After Mr Fu set up his principle and proposed his three imaginative solutions (*shexiang*), senior managers expected Lee's managerial team to give a proper evaluation of Mr Fu's three solutions and provide a finalised strategic solution about how to develop this new business in the future. A thorough market analysis about the commercial vehicle manufacturing industry and a clear understanding of the corporate position were urgently needed. The solution would guide the long-term implementation of this diversification strategy.

Mr Fu's three solutions have actually served as guiding solutions for this new vehicle manufacturing business. The company committed huge resources to experiment these three speculative solutions in parallel in order to identify the best and proper one. On one hand, Fumin actively engaged in finding a foreign or a domestic partner to co-build the commercial vehicle business. Cooperating with a foreign partner was Mr Fu's '*da*' (big) solution; while liaising with a domestic partner was Mr Fu's '*zhong*' (middle) solution. In the meantime, Fumin was also actively involved into manufacturing vehicles on its own via remobilising SVGE's original production lines. This was actually reflecting Mr Fu's '*xiao*' (small) solution.

Mr Fu saw the task of finding a partner as the top priority. This point had been clearly reflected in his three solutions and SVGE's Plan for the Year of 2004.

'If we rely on our internal resources to develop the vehicle business, this solution can only sustain us to survive. If we intend to seek great growth, we must cooperate with foreign or domestic established vehicle manufactures; and seeking a partner will be an important and urgent task in 2004.'  
(SVGE's plan for the Year of 2004)

The task of finding partners involved many corporate levels, including Chairman Fu, the general manager, corporate planning department, SVGE etc. The *Chengdu* and provincial government also participated in this task. From October 2002 to the end of 2003, SVGE and some managers in the headquarters visited most of the famous domestic commercial vehicle manufactures in China, for instance, *Yutong*, *Jinlong*, *Zhongtong* etc. Mr Fu also maneuvered all his political networks to assist him finding a potential partner. For instance, one Vice Mayor of the *Chengdu* government led Mr Fu's managerial team to negotiate with *Zhongtong* in order to form a joint venture. However, after a one-year effort, no agreement was reached. The reasons were complicated. One major barrier was local protectionism. In order to protect their local economy, many local governments were reluctant to see investment flowing outside their territory. In addition, the majority of famous domestic commercial vehicle manufacturers were controlled by governments, therefore it was extremely difficult to persuade them to put investment into the *Chengdu* area. After nearly one year of negotiations and trials, Mr Fu nearly dropped his '*zhong*' (middle) solution, and turned to focus on finding foreign partners to cooperate. Mr Fu actively mobilised all Fumin's resources

and his personal *guanxi* to achieve this goal. The negotiations were taking place with commercial vehicle manufactures from different countries, for instance, Daewoo in South Korea etc.

In 2003, during the process of exploring a proper strategic solution, there had been a tense relationship between SVGE and the headquarters, especially between Lee and the general manager. With an increasing understanding of the commercial vehicle manufacturing business, senior managers in the headquarters gradually sensed that this business had a big potential and praised Mr Fu for making the right decision at the right time. 2003 had seen a dramatic increase in competition in the Southwestern vehicle manufacturing market. Several famous vehicle manufactures began to set up their new factories in *Chengdu* so as to join this growing and profitable market. It has also seen that several existing vehicle manufactures in the *Sichuan* area could not meet the increasing demand due to the limitation of their production capacities. Confronting increasing competition, the headquarters urged Lee's managerial team several times to operationalise Mr Fu's imagination and to draft a clear strategic solution to guide the long term development of this new business.

In the latter half of 2003, this expected strategic solution turned out to be a two-page report which only described a short term production plan for 2004. The general manager was furious with this report. In fact, the grudge between the senior manager and Lee had been growing for a long time since Fumin began to diversify into the vehicle business. From the beginning, the senior managers did not like to take the responsibility and diversify into a new business which was beyond Fumin's internal capabilities. Lee was a direct target for blame even though everybody knew the strategy of diversifying into the vehicle business could only come from Mr Fu himself. However, Lee was still blamed for providing supportive evidence and ideas to encourage Mr Fu to accomplish his personal intentions.

From September 2002 to the end of 2003, the managerial team in SVGE focused on re-arranging the employees and finding potential partners; whereas research and analysis on the vehicle market did not attract enough attention. After a long time and high expectations of obtaining a clear understanding towards the vehicle market, senior managers in headquarters could not tolerate Lee's performance in the vehicle business. Lee told the headquarters he still needed time to learn this new business. In the latter half of 2003, given the facts about its slow remobilising process in SVGE and unsatisfactory

progress in seeking partnerships, senior managers intended to change Lee's position in SVGE. Mr Fu shared the same ideas as his senior managers, and contributed the unsatisfying performance in the vehicle business to the incapability of Lee and his managerial team. However, he was extremely hesitant and emotional towards changing Lee's position. Mr Fu thought, even though Lee was not qualified to manage the vehicle business, he had generated a huge profit for the company via this merger. The land value of SVGE would rise dramatically in the future. Changing Lee's position just after the merger was not a fair judgement and would hurt Lee's feelings and his initiatives. Several proposals of removing Lee's position from head of SVGE were not considered by Mr Fu in 2003. Meanwhile, in SVGE, dissatisfaction with headquarters was prevalent as well. One original senior manager in SVGE complained:

'Our headquarters have no confidence in developing the vehicle business, and they have no preparation for entering this industry either... The headquarters did not provide enough support for us. We did not even get the chance to sit down with them to have a serious discussion about this new business.' (one original senior manager in SVGE)

The staff from headquarters were regarded as 'being unhelpful' for their lack of knowledge in the vehicle business. These conflicts have led to serious distrust and lack of cooperation between the general manager and Lee. For many issues, Lee would directly report to Mr Fu without informing the general manager and other senior managers in headquarters. The general manager felt it was extremely difficult to control the vehicle business if Mr Fu would not alter Lee's position.

Furthermore, experimenting with Mr Fu's three solutions in parallel has caused great confusion in SVGE about its future. The staff did not have clear goals which they were expected to achieve. It was assumed that every plan they drafted would be dramatically changed if they succeeded in introducing partners. The major decisions relating to coach production was made on ad hoc basis, and Lee's managerial team was also hesitant and too reserved to make any big moves. Most of the managers were waiting for outside forces to come to reform SVGE. This resulted in low input to vehicle manufacturing and low morale among the staff in 2003.

With increasing competition in the Southwestern Chinese vehicle market, headquarters were greatly concerned they would miss the best opportunity to establish themselves

in the vehicle market because they had wasted so much time in 2003. Therefore, in the beginning of 2004, a major structural change in SVGE took place. The headquarters separated SVGE's business into two parts, with one part focusing on expanding the vehicle production based on the current SVGE's capabilities, while the other part was emphasising on seeking foreign investment. Lee was removed from the head of SVGE to vice manager of SVGE, taking responsibility for seeking foreign investment. A new head was appointed to look after the whole business of SVGE with focus on expanding Fumin's own vehicle production. Fumin has finally adopted Mr Fu's '*xiao*' (small) and '*da*' (big) solutions, with '*xiao*' as a basic starting point, aiming to achieve great leaps via introducing foreign investment. After this structural change, output of coaches reached 200 units from the beginning of 2004 to the end of July 2004. Its products were out of supply due to its current limited capacity on the production line. The new factory with a capacity of 2000 units will be put into use at the end of 2004.

#### **4.4 Summary**

Data relating to the researched phenomena of this study were collected in Fumin, a large sized domestic private enterprise located in the *Sichuan* province. Since 1986, the company has expanded into five unrelated business areas and currently is still in the fast growing and expanding stage. From the end of 2001, the company was actively diversifying into the commercial vehicle manufacturing business. This chapter has detailed and documented the strategy formation taking place during the period of 2001 to 2004. Major incidents and activities are described in order to gain an understanding of this strategy formation. In addition, the corporate context has also been depicted including the corporate founder, the company's historical development, the corporate structure and strategy, in order to enrich the understanding towards this diversification strategy. These accounts provide a firm base for later grounded theory building. The following chapters 5 and 6 reflect the theorising processes and findings which were grounded on this chapter.

## **Chapter 5**

# **EMERGENT THEORETICAL CATEGORIES**

### **5.1 Introduction**

This chapter mainly records the results from the open coding analysis. During the open coding stage, the general research question has been reflected and further elaborated into more detailed research questions based on important concepts derived from the evidence. In consequence, three research questions are developed so as to enrich the inquiry towards strategy formation in CPEs. These detailed research questions are explained in the first section of this chapter. In the second section of this chapter, seven emergent categories are illustrated in great detail relating to their subcategories, properties and dimensions (see Appendix C for explanations of grounded theory terminology). Due to highly interwoven nature between open coding and axial coding it is difficult to completely differentiate these two stages. During the open coding, the relationship between categories and their subcategories came out frequently and was documented in this chapter when necessary. However, the primary purpose of this chapter is to enhance the understanding of individual categories so as to build a firm basis for the later construction of the grounded theory, which will be described in Chapter 6.

## 5.2 Emergent Research Questions

In the beginning of this study a general research question was set which aims to gain deep knowledge about how CPEs form their strategies. In order to achieve this aim an interpretive grounded approach was adopted to explore the meanings of strategy formation from the perspective of the interviewees. However, no detailed research questions had been predetermined in the beginning of the study. Instead, they emerged gradually as the study progressed. These emergent research questions were the outcome of continuing reflections on the general research question and the data which has been collected during a two-year period. They have served as essential directions to guide further theory building. These detailed research questions are explained as follows:

### **Question One: What are the characteristics of strategy formation in the Chinese Private Enterprise?**

Based on the evidence collected, many activities occurred during the process of diversifying into the commercial vehicle industry; some behaviour has shown dramatic variance compared with the Western companies, for instance, the interference of Chinese government etc. Therefore, this study intends to further theorise and synthesise these key characteristics which lie underneath strategic activities and behaviours, in terms of importance to the interviewees. Via conceptualising these key characteristics, the general research question is further enriched; the findings will potentially facilitate a clearer understanding towards strategy formation in the Chinese private context.

### **Question Two: How does the Chinese *siying qiyejia* influence strategy formation?**

After a two-month period staying inside the company on a daily basis between 16 September and 21 November 2002, I gradually came to understand the determinant role of the Chinese *siying qiyejia* ( translated as ‘private entrepreneur’ based on A Chinese-English Dictionary (Wei, 2001) ) on the strategy formation. It is unanimously agreed that Mr Fu, as a successful Chinese *siying qiyejia*, is a key determinant factor for the formation of this diversification strategy. Especially during one interview, when the general manager told me that the company was a reflection of Mr Fu’s intentions,

I began to further focus on the question of how the Chinese *siying qiyejia* influences strategy formation. In particular, what was the role of his intentions on strategy formation process? How did he interact with varied participants, strategic activities and context so as to accomplish his intentions?

**Question three: What is the relationship between organisational *guanxi* and strategy formation?**

*Guanxi* was a concept frequently mentioned by the interviewees as a key successful factor or a kind of peculiar corporate capability when accomplishing some tasks. *Guanxi* almost penetrated the majority of activities during the strategy formation process. For instance, key strategic information was found and delivered by Fumin's *guanxi*; merging with SVGE had to rely on high quality *guanxi*; finding potential foreign partners needed good *guanxi* with high-level governments etc. It seemed that the progress of strategy formation was conditional on the support of strong corporate *guanxi*. I therefore began to further explore the relationship between organisational *guanxi* and strategy formation. This sub-research question has been enriched by more specific questions. Particularly, why is organisational *guanxi* so prevalent during strategy formation processes? How does organisational *guanxi* manifest itself during strategy formation processes?

These detailed research questions were developed based on the recognition of important concepts or categories from the evidence. These research questions, in turn, assist to further select and elaborate concepts or categories which are relevant to this study. This is an iterative process. As a result the research questions are refined and categories with their subcategories, properties and dimensions are further condensed and elaborated so as to better answer these questions in both depth and width. During the open coding stage, hundreds of concepts have been discerned from the data. However, it is not possible for this study to explain all these concepts in detail. Concepts need to be condensed and synthesised so as to make it workable. Appendix A provides an example about how preliminary concepts are generated from the evidence and further synthesised into a more abstract level of categories. As a consequence of the open coding stage, seven categories are generated with the related subcategories, properties and dimensions. The remaining sections of this chapter will focus on explaining

these categories in depth. For the illustrative purpose every category is under one separate section accompanied by a table in the beginning to provide a summary of its related subcategories, properties and dimensions. All the subcategories are arranged as separate titles with the following content committed to explain their properties and dimensions. Furthermore, all the categories, subcategories, properties and dimensions are distinguished by quotation marks in the content.

## **5.3 The Generation of Categories**

### **5.3.1 Strategic reorganisation of CSEs**

Since 1978 the world has seen a great shift from the planning economy to the market economy in China. As discussed in Chapter 1, political ideology of the CPC towards CPEs has been greatly liberated during this transitional period. The private sector has been improved as a ‘side by side’ economic force in parallel with the state sector in the Chinese economic system. Varied laws and policies have been revised to reflect this ideological change. Fundamentally this liberalisation towards the private sector is inseparable with the reform on the Chinese state sector. At the transitional stage one of the core issues to the CPC relates to re-energise and effectuate nearly 400, 000 CSEs, most of which were facing serious decline (Gao, 2001). Liberalisation and privatisation were actually general policy orientations towards those small and medium-sized state companies, which were controlled by local governments. As a consequence a large number of market opportunities have been opened up to the CPEs and boost their fast development. In this case, CPC’s central policies of reorganising CSEs have exerted enormous influence on Fumin’s development (CPC, 1995, 1999). Diversifying into the commercial vehicle manufacturing industry was inseparable from this principle. Therefore, in this section ‘strategic reorganisation of CSEs’ gains its status as a category and is further enriched in order to understand this macro background under which this diversification strategy was unfolded in Fumin. Table 5.1 provides a brief summary about its related subcategories, properties and dimensions.

<b>Subcategories</b>	<b>Properties</b>	<b>Dimensions</b>
Policies	<i>Zhuada fangxiao</i> <i>Guotui minjin</i>	Privatisation Liberalisation
Consequences	Generation of market opportunities Perception of environment	Abundant Positive

Table 5.1: Strategic reorganisation of CSEs

## **Policies**

Since 1978, we have seen issuance of varied policies for the purpose of improving efficiency of CSEs (Gao, 2001). One of the most dramatic leap in policy-making was during 1995 when the CPC issued ‘strategic reorganisation of CSEs’ at its Fifth Plenary Session of the 14th Party Central Committee (CPC, 1995). ‘Strategic reorganisation of CSEs’ contains two essential policies which have been conceptualised as two properties. One is ‘*zhuada fangxiao*’, which literally means that the government should focus on large CSEs while it adopts a flexible policy towards small and medium ones (CPC, 1995). A flexible policy towards small and medium ones means to relax the control over them by way of reorganisation, merger, leasing, contract operation, joint stock partnership or selling-off. Consequently the State Council selected 300 large sized CSEs in 1995, increasing to 512 in 1997, as the major focus of governments; and began to allow local governments to privatise a majority of small and medium sized ones (Gao, 2001). In 1999 ‘strategic reorganisation of CSEs’ is further deepened with a call from the CPC that CSEs should exit most of competitive industries and concentrate on important sectors, which will fundamentally influence social well-being, such as national security industry, natural monopoly, high technology industries etc (CPC, 1999). Meanwhile governments should encourage CPEs to step into diversified competitive industries which CSEs can not cover (CPC, 1999). This policy is popularly termed as ‘*guotui minjin*’, which literally means that CSEs retreat and CPEs step forward. In general, the implementation of ‘strategic reorganisation of CSEs’ has seen great liberalisation and privatisation of CSEs. Therefore, ‘liberalisation’ and ‘privatisation’ are utilised as dimensions of the concepts of ‘*zhuada fangxiao*’ and ‘*guotui minjin*’ in order to give specification to these properties.

## Consequences

'Strategic reorganisation of CSEs' exerts great impact on Fumin and its strategy formation behaviours. The first concept discerned is 'generation of opportunities', 'abundant' is employed as a dimension to describe the quantity of opportunities. It is evidenced that the CPEs gain more freedom to enter a wider range of industries which were traditionally controlled by the state sector for instance, the hospital service, educational industry etc. In addition, they were given opportunities for obtaining enormous resources released by the state sector by means of mergers, cooperation, acquisition etc.

In relation to Fumin's development all these opportunities account significantly for the fast growth of Fumin, as the Vice Mayor of *Mianyang* commented:

'The economic reform in China, carried out since 1979, aims to transform the planning economy to the market economy. It is obvious that there are many defects about CSEs. The key issue for reforming these CSEs is how to withdraw the state capital from the current economic system... In the future the CSEs will exit all the competitive industries according to the principles from the central committee of the CPC... When the state sector steps out, the private sector will naturally step in... The fast expansion of Fumin is inseparable from the exit of the state capital. Currently, Fumin has merged or acquired more than ten CSEs.' (the Vice Mayor of *Mianyang*)

In addition, these abundant opportunities also fundamentally influence corporate strategy in Fumin. For instance, its transportation and hospital service are both forged under this macro background of strategic reorganisation of CSEs as explained by the Vice Mayor of *Mianyang*:

'I believe that the transportation service industry can be marketised as well, even though it is a basic industry. Fumin could merge or acquire all the state-owned transportation companies and become the leading transportation company in *Mianyang*... Some of the hospital service, from the long term run, should also be marketised, it is a trend. Fumin could do well in this industry.' (the Vice Mayor of *Mianyang*)

In relation to this particular diversification strategy into the commercial vehicle business, reorganisation of SVGE was also an opportunity derived from ‘strategic reorganisation of CSEs’. This opportunity has served as an important stimuli for Fumin to initiate its strategic formation process.

Ironically, the abundance of opportunities generated from ‘strategic reorganisation of CSEs’ can become a problem if they are not properly managed. One internal consultant showed great concerns about increasing diversity of Fumin’s businesses:

‘During the process of *guotui minjin* the opportunities generated are enormous and also very attractive. Whether *siying qiyejia* can select the best opportunity for their organisations is pretty much depending on their own capabilities. This is a challenge posed to *siying qiyejia*. Sometimes opportunities may become traps. The more you take on, the worse you become.’  
(One internal consultant)

‘Strategic reorganisation of CSEs’ also leads to ‘positive perception of environment’ in Fumin. Here ‘positive’ gives specification to the property of ‘perception of environment’. Even though CPEs generally do not hold the same status as CSEs, which enjoy more policy and financial support, Fumin perceived the environment in a positive way. Especially Mr Fu, after the 16th CPC’s national congress in December 2003, firmly believed that new party leaders would further support the development of private enterprises and it was, and will still be, a great time for Fumin to stride into the future. In this respect, ‘positive perception of regulatory environment’ boosts confidence in Fumin for its future and encourages Fumin to further diversify into new business areas to seek long term growth, for instance by diversifying into the commercial vehicle manufacturing business.

### **5.3.2 Local governments**

Local governments form a significant processual context for forming this diversification strategy in Fumin. When commenting on influence of local governments on the corporation, Mr Fu emphasised that ‘local governments can decide our survival!’ The category of ‘local governments’ has provided explanations for Mr Fu’s assertion.

Subcategories	Properties	Dimensions
Power	Control of local CSEs Control of local land resources Deciding local tariffs or fees Providing project support Making and interpreting local policies	Multifaceted
Regulation	Relying on administrative policies Consequences	Flexible Uncertain

Table 5.2: Local governments

### Power

The ‘power’ of local governments is ‘multifaceted’, which is further delineated into five properties consisting of ‘control of local CSEs’, ‘control of local land resources’, ‘deciding local tariffs or fees’, ‘providing project support’ and ‘making and interpreting local policies’. These properties are closely linked with this diversification strategy.

Local governments hold ‘control of local CSEs’, the majority of which are small and medium sized. For instance, SVGE was owned by the *Chengdu* government. After issuance of ‘strategic reorganisation of CSEs’, most of them are privatised or reorganised. Despite their lack of competitiveness in the market economy CSEs still hold a large amount of resources which CPEs can not obtain in the short term. For instance, besides its physical resources including land and factories, SVGE holds diversified licenses for manufacturing vehicles. These licenses are particularly important for Fumin to diversify into the commercial vehicle industry. As the owner of these CSEs, local governments have autonomy to decide the buying and selling prices. Especially for Fumin, who regards M&As as a major strategy for its diversification, the *Chengdu* government is a distinguished influencing force which could potentially either facilitate or hinder the formation of this diversification strategy.

The second type of ‘power’ belonging to local governments is ‘control of local land resources’. As a property developer, Fumin is heavily regulated by local governments due to its need for land resources. Fumin has to seek varied permissions from local

governments so as to obtain and develop the land. The price of land is also flexible and can be decided by local governments. For instance, the price of the land of SVGE and the price for changing the usage of its land were all set up by the *Chengdu* government. Any change of these prices would heavily influence Fumin's cost of merging with SVGE and exert further influence on the investment in the commercial vehicle manufacturing.

Furthermore, local governments have autonomy of 'deciding local tariffs or fees', as one senior manager explained:

'Local governments have the right to decide local tariffs. For instance, sometimes they will give you a refund in order to encourage you to develop your business.' (One senior manager)

For example, when purchasing commercial vehicles, customers have to pay a purchasing tariff which accounts for 10% of the product price. Local governments have the right to issue rate deductions to local vehicle manufacturers. This will, to some extent, increase competitive capability of particular manufacturers.

In addition local government can 'provide project support', as one internal consultant noted:

'Projects passed down from the central government will be allocated by local governments for instance, allocation of foreign investment, road building projects etc. If you are 'naughty' and do not abide by local governments, they will give you nothing.' (One internal consultant, and former local politician).

Regarding the project of diversifying into the commercial vehicle industry, government support ranged from providing ideas, information and networks to direct participation in the project. The *Sichuan* provincial government, the *Chengdu* government and the *Mianyang* government are all actively involved. For instance the *Sichuan* provincial government and the *Chengdu* government actively supported the merger between SVGE and Fumin; one Vice Mayor of the *Chengdu* government acted as a team leader to introduce external investment into SVGE; the *Mianyang* government also utilised

its networks to assist Fumin to find foreign investment. All these supports are vital to the formation of this diversification strategy regarding the issues of how to diversify and how to develop this new business in the future.

Excluding all the power mentioned above, one significant power attached to local governments is 'making and interpreting local policies'. This does not suggest that local governments can act without guidance from the central committee. However, the policies from the central committee are mostly general which leaves more scope for local governments to adjust in order to suit local needs. In addition, a large amount of local affairs need to be regulated by local governments. This has given them enormous power to manoeuvre local policies so as to regulate local corporate activities. For instance, the *Chengdu* government set one basic principle for Fumin that the merger with SVGE is based on the premise of continuing SVGE's vehicle manufacturing business. However, no details were given to Fumin relating to the standards of this premise. The ambiguity of this policy requires interpretation from the *Chengdu* government and gives rise to uncertainty for the future.

### **Regulation**

Given the fact that local governments enjoy enormous power in dealing local affairs, how they regulate market activities is extremely important for local enterprises. Under the current transitional economic background, the legal system is lagging far behind the economic development, therefore local governments are mostly 'relying on administrative policies' to regulate market activities. This method of regulation is characterised as being 'flexible' as one senior manager explained:

'Currently many policies are very soft, local governments have rights to deal with them in a flexible way.' (One senior manager)

Based on this flexible regulation, the 'consequences' on local enterprises could be potentially 'uncertain'. For instance, local governments can act in positive roles to facilitate the development of local enterprise. However if they abuse their power, they could exert damage on local enterprises. This uncertainty can be evidenced in diversified opinions inside Fumin when commenting on the impact of local governments on corporate activities.

### 5.3.3 Organisational *guanxi*

#### The level of analysis

The term of *guanxi* has been frequently mentioned by the organisational members. Even though Chinese *guanxi* is commonly defined as a personal network via which gifts and favours can be exchanged (Park and Luo, 2001), the *guanxi* practice at the organisational level was extremely significant for Fumin's business success. It was also evident that there was an implicit allocation of responsibilities among the top managers to look after *guanxi* with governments and banks. Fumin was also seeking one way to institutionalise the *guanxi* practice. One position, focusing on strengthening governments *guanxi*, had been created in the general manager's office. Park and Luo (2001, p. 457) argue that '*guanxi* becomes an asset at the organisational level as personal relationships are dedicated to and used by the organisation'. Therefore, this study will focus on *guanxi* at the organisational level and the category of 'organisational *guanxi*' is constructed to reflect the interest of this study.

The relevant subcategories, properties and dimensions of 'organisational *guanxi*' are shown in the table 5.3.

Subcategories	Properties	Dimensions
<i>Guanxi</i> scope	<i>Zhengzhi guanxi</i> (political networks) <i>Guanxi</i> with banks	Levels:local to central Strengths:strong to weak Level:local Strength:strong
<i>Guanxi</i> sources	Chinese <i>siying qiyejia</i> Managers/internal consultants Transference	Individual, core Individual, peripheral Individual to organisational
<i>Guanxi</i> cultivation	Gaining trust Giving favours	Emotional Pragmatic
<i>Guanxi</i> consequences	Obtaining opportunities	Tangible, intangible

Table 5.3: Organisational *guanxi*

## ***Guanxi* scope**

'*Zhengzhi guanxi*' (political networks) was the most important 'scope' of 'organisational *guanxi*' in Fumin. Its importance has been clearly addressed by most of the organisational members as one senior managers explained:

'China is different from the West in that governments and companies will generally follow certain rules to conduct activities, companies do not need to go to find Mayors to solve their problems. When you become a larger company, you must get support from local governments because they are responsible for making policies. In the West, if you offend rules, you will be punished. However in China, a phone call to the right person in the government will immediately solve your problems. Therefore, we have to build good *guanxi* with local governments including their varied local offices e.g. tariff office, business administration office, land office, police office etc.' (One senior manager)

As delineated by this senior manager, the concept of '*zhengzhi guanxi*' is clearly linked with the concepts of the 'power' of local governments and also the way of how they regulate market activities (see Section 5.3.2). Fumin has to rely on its '*zhengzhi guanxi*' to make sure the government is acting for Fumin's benefit.

'*Zhengzhi guanxi*' has varied 'levels' and 'strengths'. Regarding the 'levels', '*zhengzhi guanxi*' can range from 'local' to 'central'. Because the majority of Fumin's businesses were confined into *Mianyang* and *Chengdu* areas, Fumin has to constantly contact these local governments for varied resources and permissions (See Section 5.3.2). Therefore '*zhengzhi guanxi*' with local governments, including the *Mianyang* and *Chengdu* governments, has attracted more attention from the organisation.

In terms of the 'strengths' of '*zhengzhi guanxi*', Fumin had a 'strong' *guanxi* with the *Mianyang* government who regarded Fumin as a major flag in the local economy as explained by one local government official:

'In the private sector, we will try to satisfy every requirement of Fumin. This support is very strong. We will deal with Fumin's affairs in a special way.' (One local government official)

One middle manager further explained how special the *guanxi* was with the *Mianyang* government:

‘As one of the largest private enterprises in *Mianyang*, Fumin has very good *guanxi* with the upper level of the local government. Currently there are people designated from every division of the local government to deal with affairs of local private firms. Fumin is specially looked after by the head of these divisions due to its importance in the local economy. Some officials have come to our headquarters several times specifically for solving our current problems.’ (One middle manager)

‘*Zhengzhi guanxi*’ with the *Chengdu* government and *Sichuan* provincial government was ‘relatively weak’ compared with ‘*zhengzhi guanxi*’ with the *Mianyang* government. However with several years business expansion in the *Chengdu* area, *zhengzhi guanxi* was built up quickly. Among the *Chengdu* officials, Fumin was famous for its good image of being trustworthy and having strong corporate capabilities.

‘*Zhengzhi guanxi*’ with the central government was ‘very weak’. This issue has been highlighted during the process of diversifying into the commercial vehicle business as explained by one senior manager:

‘For the commercial vehicle project, the provincial government has only limited regulation powers. The central government controls licenses, importation quota etc. We are very weak in *guanxi* with the central government. The general manager should go to solve this problem.’ (One senior manager)

‘*Guanxi* with banks’ forms another important ‘scope’ of ‘organisational *guanxi*’. In China most banks who were state-owned, traditionally lent towards the CSEs with financial support. In the past, private enterprises had even been excluded from the state financial system. With the recent reform of the state-owned financial sector into commercial institutions, many local policies have been issued from the People’s Bank of China to support the development of private enterprises. For instance, in the ‘Opinions on Supporting Local Private Economy’ in 2003, the *Chengdu* Division of the People’s Bank issued the following policy:

‘Varied financial institutions should actively support financial requirements from private enterprises. Private enterprises should be treated equally in obtaining loans and other services.’ (the *Chengdu* division of the People’s Bank)

For a fast growing company, like Fumin, the need for financial capital is enormous. Despite being in an unfavourable financial environment, Fumin appears to be able to secure sustainable financial support from local banks. The key successful factor was long-term good *guanxi* with banks as one financial manager explained:

‘It is relatively easy for us to get money from banks. My friends in the financial circle told me that Mr Fu’s name is worth 200 million Chinese Yuan because he has a strong goodwill within financial circles.’ (One financial manager)

### ***Guanxi* sources**

Based on the explanations from interviewees, it was found that ‘organisational *guanxi*’ fundamentally originated from ‘individual’ *guanxi*, and therefore was inseparable from ‘individual’ *guanxi*. Several managers had explained differences that individual *guanxi* can make:

‘I have my own social circle in *Chengdu* and if I want to visit some provincial officials only I can make it. No one else in the company is able to do it.’ (One senior manager)

‘If you go things will not work. But if I go then things will work because I have a better personal relationship than you. That is the difference personal *guanxi* will make.’ (One senior manager)

It was suggested by many managers that Mr Fu lied in the very ‘core’ of ‘organisational *guanxi*’ in Fumin; in particular most of ‘*zhengzhi guanxi*’ came from him. Mr Fu held diversified political titles in governments, for instance, he is a member in the standing committee of the *Mianyang* People’s Congress, member of *Mianyang* Committee of

Political Consultative Conference, member of *Sichuan* Committee of Political Consultative Conference and a member of the National Association of Industry and Commerce. In addition, Mr Fu's managers and his internal consultants formed a very rich internal *guanxi* reservoir (which is the result of Mr Fu's years of head hunting). However, compared with Mr Fu's *guanxi*, they lied in the 'peripheral' of 'organisational *guanxi*':

'Mr Fu has a deep *jiaoqing* (friendly relationship) with the *Mianyang* government. Some things can only be done if he himself goes to handle them; however, things will possibly not work if his subordinates go.' (One middle manager)

Furthermore, 'transference' of individual *guanxi* to organisational *guanxi* relied on the following. Firstly, recruitment was one important mechanism for Fumin to internalise individual *guanxi*. Mr Fu was extremely skilled in constructing his managerial team which can bring potential *guanxi* into the organisation. The important position, such as General Manager, was given to a person who once served in the Chinese central government and the Chinese embassy in America. The majority of his managers had government backgrounds. Mr Fu also built a rich reservoir of internal consultants most of whom were retired politicians or bankers. For instance, one of his internal consultants was the former head of the People's Bank in *Mianyang*. This internal network shaped a strong basis for building a high-valued external *guanxi* network. One local government official even emphasised that Fumin's recruitment policy was one of key successful factors:

'One of the important successful factors of Fumin was attributed to Fu's ability of employing the right people. He gathered a group of elites, such as the head of the local bank, who have brought diverse resources into his company.' (One local government official).

Secondly, Mr Fu was a key factor to enable internal individual *guanxi* dedicated for the use of the organisation. The key staff recruited have very deep friendly relationship with Mr Fu, therefore they show great loyalty towards him. This emotional bond between Mr Fu and his managers or internal consultants had facilitated transference of *guanxi* from individual level to the organisational use.

## ***Guanxi* cultivation**

In Fumin, 'gaining trust' was a core element for *guanxi* cultivation. It has created a strong emotional bond between Fumin and its external environment. Varied terms and practices have been developed for gaining trust, for instance, '*jiang renqing*' (considering human feelings), 'respecting individuals', 'keeping your promise', 'being honest and sincere', 'showing considerations' and 'being loyal'. In particular, '*jiang renqing*' (considering human feelings) was extremely popular inside the organisation. For instance, during the process of merging with SVGE, when Mr Fu saw the tough life of SVGE's employees, he resolutely allocated a certain amount of money from Fumin to SVGE so as to relieve their difficult situations. When the representatives of SVGE went to visit Fumin's headquarters, Mr Fu delivered a very touching speech stating that he did not intend to get the money back even if Fumin did not succeed in obtaining this merger contract. The employees in SVGE were deeply emotionally touched and regarded Fumin as a company they could trust and a partner they could co-operate with. This story of trust building by '*jiang renqing*' (considering human feelings) was unanimously mentioned by interviewees as a key successful factor for obtaining the merger contract with SVGE. These tactics were also employed when Fumin developed *guanxi* with governments. In 1997 Fumin merged with the *Mianyang* Warp and Weft Knitting Factory considering that *Mianyang* government faced great difficulty to reorganise this company. One senior manager commented that this merger did not bring profit to the company. Instead, it was intended to look after local government's interests. Consequently *guanxi* between Fumin and local governments had been greatly strengthened. Gaining trust has reflected a very strong emotional side of *guanxi* cultivation. When individual's emotions were satisfied, *guanxi* became further strengthened.

However, gaining trust was not the only way for cultivating strong *guanxi* in this organisation. 'Giving favours' to individuals in its *guanxi* networks has showed a pragmatic side of *guanxi* cultivation. Fumin provided varied discounts on its properties to its *guanxi* network. Fumin even looked after their family members, such as giving them job opportunities. The general manager emphasised the importance of *goudui* (exchanging material interests) for *guanxi* cultivation with local governments:

'You have to know how to *goudui* with local governments. We have already accumulated some capital. Sometimes we have to make promises

that will consume a lot of money. If we have nothing it is impossible to maintain *guanxi*. Sometimes you have to use multiple ways.' (the general manager)

It seemed that 'gaining trust' and 'giving favours' were complementary to each other, with trust providing an emotional dimension to *guanxi* and favours satisfying the pragmatic concerns of *guanxi* networks.

### ***Guanxi* consequences**

The direct consequence derived from 'organisational *guanxi*' was 'obtaining opportunities' which provided essential conditions for forming this diversification strategy. Based on understandings from the interviewees, opportunities referred to varied benefits including physical resources, privilege, social resources, information, government support etc. These benefits can be categorised as 'tangible' and 'intangible' benefits. As for tangible benefits, Fumin has obtained a large amount of cheaper land and deductions in local tariffs or fees from the local governments. A large amount of financial loans from the banks had strengthened Fumin's foundation for the further fast expansion. The intangible benefits were also extremely extensive. These included information, strategic ideas, legal protection and recommendation for getting projects or business partners etc. This was evidenced when I interviewed the Vice Mayor of *Mianyang* city, he explained his opinions orally towards Fumin's next stage of development which covered the broad issues of corporate governance, portfolio management, the human resource policy, corporate culture etc. His suggestions were later transcribed into 800 Chinese words. The Vice Mayor also asked me to take his suggestions back to Mr Fu and his top management team for their consideration.

The consequence of *guanxi* had also been reflected in diversifying into the commercial vehicle manufacturing industry. It was found that one of the important functions of Fumin's *guanxi* was to bridge information among market gaps. Fumin obtained one key piece of information that SVGE was seeking partners from Mr Fu's personal friend. It was this piece of information that served as an important stimuli for Fumin diversifying into this unknown business. In addition by cultivating strong *guanxi* with SVGE and local governments, Fumin succeeded in the merger even though the company was not a vehicle manufacturer. Later when the organisation was actively seeking

external partnership, the *Chengdu* government and provincial government provided strong support by participating in the project. Under current Chinese policies, foreign commercial vehicle manufacturers can not hold sole-owned subsidiaries in China. Instead they must cooperate with domestic companies, the majority of whom were the CSEs, with the head of the joint venture sometimes delegated by local governments. Due to strong local protectionism, Fumin's seeking partnership outside the *Sichuan* province proved to be an extremely difficult process even with strong support of the *Sichuan* government. When asked for the solution of this matter, the senior managers told me that *guanxi* will possibly solve this issue.

The data also suggest that the degree of benefits is conditional upon the quality of *guanxi*. So far, the performance of finding a foreign partner was not satisfying. One of the major reasons found by managers was the lack of *guanxi* with the central government, as one senior manager commented:

'Introducing foreign investment has to rely on the central government rather than the provincial government. We did not have *guanxi* at the central level. If we do have *guanxi* with the central government, things will become much easier. If the central government can help us a little bit on the introduction of foreign investment, its impact will be far stronger than the provincial government.' (One senior manager)

#### **5.3.4 Chinese *siying qiyejia***

Fumin members I interviewed unanimously agreed that their Chairman Fu was a determinant factor for forming this diversification strategy into the commercial vehicle manufacturing industry. They use the term '*siying qiyejia*' to label Mr Fu. '*Siying*' means private owned; while '*qiyejia*' is translated as 'entrepreneur' according to 'A Chinese-English Dictionary' (2001, p. 775).

Based on '*Xinhua* Dictionary' (a Chinese dictionary), '*qiyejia*' refer to 'those organisational owners or managers who can seize opportunities to introduce new products and technologies, improve organisational structures, and seek maximum profit and long term development for organisations. Innovation is the most important capability of *qiyejia*' (The Commercial Press, 2003, p.773). Given the fact that the definition

of 'entrepreneur' is extremely problematic in Western literature of entrepreneurship (see Section 2.4.4), directly translating '*qiyejia*' into 'entrepreneur', as suggested by the dictionary, might take the risk of misinterpreting this term in the context of the entrepreneurship theory. Therefore, I chose to use the original Chinese term '*siying qiyejia*', suggested by the interviewees, rather than its translation, as the name of the category.

From the perspectives of organisational members, '*qiyejia*' has shown rich meanings. Some unified characteristics identified from interviews were that '*qiyejia*' must be 'strategists' and 'far-sighted', and have great ambitions for growing their businesses. Some interviewees defined '*qiyejia*' as 'risk takers'; while some denied this interpretation and regarded '*qiyejia*' as being 'extremely cautious'. Few explained '*qiyejia*' should have 'excellent managerial skills'. The most important reason for organisational members to label Mr Fu as a '*qiyejia*' was due to his distinguishing capabilities of being 'far-sighted' and 'having great ambitions'. Chapter 4 has provided some historical accounts about Mr Fu's great ambitions and his insights into politics, corporate growth and strategies.

If Mr Fu was a determinant factor on the strategy formation, as suggested by Fumin members, in what aspects did he determine this diversification strategy? The answers to this question are extremely complicated and involve complex relationships among multiple categories revealed in this chapter. This complex relationship will be intensively explained in Chapter 6. One fundamental reason of this strategy exposed by managers laid in Mr Fu's personal intentions of having his own vehicle business; this intention originated from Mr Fu's personal history for nearly forty years. In this section, the category of 'Chinese *siying qiyejia*' is supported by multiple subcategories, properties and dimensions (see Table 5.4 for a brief summary).

<b>Subcategories</b>	<b>Properties</b>	<b>Dimensions</b>
Personal intentions	<i>Qingjie</i> (emotional attachment to something) Function on strategy formation	Emotional Psychological Uncertain
Personal history	Life experiences Political career	Hard Rich
Personal value	Trust <i>Renqing</i> management	Personal Emotional

Table 5.4: Chinese *siying qiyejia*

### **Personal intentions**

The term of ‘intention’ has frequently appeared in the interviews and has been regarded as an underlying reason to diversify into the commercial vehicle business. When interviewing senior managers, the first reason they mentioned for this diversification strategy would unanimously go directly towards Mr Fu’s ‘intentions’, as one senior manager noted:

‘When Fu was young, he had been involved with the vehicle business. He has had a vehicle dream inside his heart since he was a teenager; this intention has lasted for nearly forty years.’ (One senior manager)

Mr Fu clearly acknowledged that he has a strong personal intention to accomplish his vehicle dream:

‘I have had the intention of producing vehicles since I was very young. *Yongxiangqian* was made by myself when I was seventeen. I fancy vehicles and have certain relevant experiences of making vehicles due to my past career. My managers joked with me that the purpose of Fumin diversifying into the vehicle industry is to accomplish my personal intention.’  
(Fu)

Some organisational members labelled this type of ‘personal intentions’ as ‘*qingjie*’ (emotional attachment to something). Here, ‘emotional’ is discerned as a significant

dimension to describe 'personal intentions'. In addition, the interviews also suggested that Mr Fu was not only emotionally attached to concrete vehicle products, but also attached to a kind of 'psychological' satisfaction derived from vehicle manufacturing. According to some senior managers, the vehicle manufacturing industry was regarded as a strategic industry by Chinese governments. Owning a successful vehicle manufacturing business seems to be a sure route to high political and social status. Mr Fu's son firmly believed that improving his social and political status was also an implicit motivation for Mr Fu to diversify into the vehicle manufacturing business.

'Personal intentions' could act in either positive or negative roles on this diversification strategy. In other words, their 'function on the strategy formation' can be 'uncertain'. From the positive perspective, the 'personal intentions' served as deep motivation for diversifying into the vehicle manufacturing business. For years, Mr Fu constantly sought opportunities to diversify into the vehicle manufacturing business. For instance, when he stayed in America, he asked his general manager to introduce some contacts who were involved in commercial vehicle manufacturing in order to find a potential partnership. In 1998, Fumin merged with *Sichuan Shanchuan* Vehicle Factory which originally specialized in manufacturing agricultural tractors. However, this company was immediately dismantled and turned into property development due to its weak manufacturing capabilities. Mr Fu's 'personal intentions' stayed at his personal level until SVGE came out as a prospective business partner, his intentions never faded. According to the interviews, Mr Fu emphasised that he kept learning about the vehicle manufacturing business via subscribing to various magazines and books; he also never stopped thinking about this business. In addition 'personal intentions' have also resulted into Mr Fu's great resolution, passion, faith and commitment towards this diversification. This kind of resolution and passion from their leader has been regarded as one of the advantages among managers when diversifying into this new business. For instance, when Fumin merged with SVGE, initially organisational members of SVGE were very sceptical about Fumin's motivation towards this merger. After they heard of Mr Fu's stories and knew that Mr Fu had a long lasting interest in vehicle manufacturing, their trust towards Fumin was greatly strengthened. In addition, the general manager also believed that this resolution was a kind of advantage for pushing a new strategy through the whole organisation. From the negative points

of view, 'personal intentions' could potentially deteriorate the whole organisation, as was the general manager's concern:

'Three years ago when Mr Fu was in America, I introduced some clients to him. He was very keen to enter into the vehicle manufacturing business. It was not possible for us! We had not accumulated any technology, human capital or financial capital for this business. What is our advantage? I can not think of any! The only one is that Mr Fu has a determination and interest in the vehicle business. The profit from our property development can not support the vehicle business. I do not need to gamble on a new project by capitalising on our property business...Mr Fu always told me 'do not worry, it does not matter if we lose several million (in Chinese Yuan) on this new vehicle business'. But if I said nothing towards these potential problems, I would not fulfil my responsibility.' (the general manager)

### **Personal history**

What has caused Mr Fu to hold such strong and durable 'personal intentions' of having his own vehicle manufacturing business? When tracing antecedents of these 'personal intentions', the concept of 'personal history' was revealed by the organisational members. All the senior managers and some close internal consultants were extremely familiar with Mr Fu's past history.

One of the distinguished properties derived from Mr Fu's 'personal history' is 'hard life experiences' he has suffered in his past. It was found that it was these 'hard life experiences' that was the origin of Mr Fu's 'personal intentions' of diversifying into the vehicle business. This relationship is reflected from the following interview quotes (see Table 5.5):

Hard life experience	Personal intentions	Quotes
Poor working conditions	Manufacturing vehicles	'Honglianshe was an organisation which nobody would give respect. It gathered the people from very low social classes...Mr Fu only was a worker there utilising a tricycle and pedal power to transfer goods or people.' (One internal consultant) 'It was very tough for Mr Fu to transport goods by pedalling tricycles. For instance, when the goods arrived at train stations, he had to use his own manpower to move them and then transfer them to other places...That experience was bitter. That was why later Mr Fu assembled one engine-driven tricycle to make his life decent. This period of history was the origin of his personal dream of owning his vehicle manufacturing business.' (One senior manager)
Impoverished family background	Improving personal social status	'Mr Fu had a really tough life. He came from a very poor family. He even had no trousers to wear when he was little. He had to struggle to survive since then.' (One internal consultant) 'I came from a very poor and humble family. Therefore it is inevitable for me to try to improve my social status in my life time.' (Fu)
Tough political career	Improving personal political status	'My first time to be imprisoned was when I was only twenty, the day before I was Vice Secretary of <i>Mianyang</i> County, the day after I suddenly became a prisoner. It is like a feeling of putting a hot iron into icy water...That experience was too cruel for me...' (Fu)

Table 5.5: Relationship between 'hard life experiences' and 'personal intentions'

Another distinguished property relating to Mr Fu's 'personal history' was his 'rich political career'. From 1969 to 1978, Mr Fu served as the Vice Secretary of *Mianyang* County of the CPC. After he established his enterprise in 1986, Mr Fu was elected into multiple political committees (see Section 4.2.1). His 'rich political career' benefited Fumin enormously in building '*zhengzhi guanxi*', via which enormous benefits have been gained for the company.

### Personal value

When interviewing Mr Fu, 'personal trust' was seen as a core value for him and also for his company. Based on Mr Fu's explanation, 'trust' contains multilevel meanings:

'Trust is actually a moral standard about how a human being should behave him or herself...The value of trust contains multilevel meanings. At the first level, we should *shishi qiushi* (seek the truth from facts), and be honest and sincere to our friends, relatives and other people. At the second level,

if you are in a more favourable situation than others, for instance, you hold more information, and you find something that will be detrimental to other people's interests, you should inform them and not take advantage over other people. At the third level, we should go beyond ourselves and always put other people's interests first whatever we do.' (Fu)

In order to cultivate 'personal trust' between his and his managers, Mr Fu adopted a particular 'emotional' managerial style, labelled as '*renqing* (human feelings) management' by his subordinates. Several managers provided examples based on their own experiences:

'Mr Fu has a special cult to attract excellent human capital. For instance, I wanted to resign this job ages ago, but Fu would ask people to bring his personal regards and cares to me from time to time. His *renqing* is so thick that I can not leave him and his company.' (One middle manager)

'If Fu thinks that you are the person he wanted for his company, he can even give you a free house. He makes you think that he is always considering your interests. At least he kept all his promises to me.' (the general manager)

The concept of 'trust' has a great influence on diversified corporate activities. For instance, Mr Fu's '*renqing* management' style impacted dramatically on '*guanxi* cultivation', for instance, '*jiang renqing*' was a very successful practice for Fumin to build good *guanxi* with SVGE (see Section 5.3.3). In addition, the degree of Mr Fu's personal trust towards his subordinates served as an implicit standard for staffing issues. The important positions, such as board members, general managers and senior managers would definitely be given to people whom Mr Fu trusted. His subordinates clearly understood the importance which Mr Fu's personal trust had on their careers in Fumin. The general manager reiterated many times during the interviews that Mr Fu held a strong trust towards him and they are closely bonded. This influence of 'trust', compounding with other factors, has further affected subordinates behaviours during the strategy formation. This will be explained in the concept of '*duiren* behaviours' (see Section 5.3.5).

### 5.3.5 Governance structure

During the interviews, managers revealed the importance of ‘governance structure’ on the strategy formation. In this particular Chinese context, the governance structure was an arrangement directly controlled by Mr Fu. Table 5.6 delineates its subcategories, properties and dimensions.

Subcategories	Properties	Dimensions
Ownership	Structure	Family-owned
Administration	Separation between ownership and administration	Single owner-controlled
	Function of the board	Insignificant
Consequences	Enforceability	Strong
	<i>Duiren</i> behaviours	Prevalent

Table 5.6: Governance structure

#### Ownership

‘Ownership structure’ in Fumin was actually ‘family owned’, with Mr Fu holding more than 70% of the shares. The remaining shares were allocated among Mr Fu’s family members, including Mr Fu’s son, niece, brother and sister. As the head of the family, 30% of residual shares were actually allocated based on Mr Fu’s will. This arrangement of ownership structure has secured Mr Fu’s family having a tight control on Fumin. Current ownership structure has aroused much dissatisfaction inside the group. Employees felt they were outsiders and have no voice in corporate management. The pressure for restructuring ownership was increasing inside the group. In relation to strategy formation, current ‘family owned’, actually mainly single-owned structure was frequently highlighted as a decisive factor for explaining current status of strategy formation:

‘We should have a process of investigation before we decide to enter into a new business. The alternative solutions, with evaluation of potential risks and profits, should be referred to top managers for their decision. However, our strategy formation was not following this way. We do what we were told by the boss. For instance regarding this vehicle decision, Fu had a concept first based on his little information, then he asked us

to realise his concept...From the deepest reason, this strategy formation is decided by the current ownership structure.' (One middle manager)

### **Administration**

In Fumin, there was not a clear 'separation between ownership and administration'. Even though Mr Fu has stepped back from the position of general manager to the position of chairman of the whole group, Fumin was still actually a 'single owner-controlled' private company. Mr Fu has explained the difference in responsibilities between him and the general manager:

'I have already delegated a lot of rights to the general manager. Some large investments need my sanction...The general manager can make decisions relating to the development of old businesses, for instance, the investment for technological improvement in current subsidiary companies. I will look after the development of new businesses, for instance, mergers or acquisitions...' (Fu)

However the general manager can not make independent decisions on many key issues, for instance, appointing important staff. Therefore, it was extremely difficult for him to carry on the business under his own will. In addition, relating to some important decisions, the general manager had been constantly left out; subsidiary managers would directly report to Mr Fu. This has caused certain confusion inside the company, as the general manager noted:

'Interference from Fu was too much and too strong. The employees do not know whom they should listen to. Sometimes employees would immediately stop their original plans just because they heard some news that Fu would like them done another way. This has caused big confusion for management.' (the general manager)

Furthermore, 'function of the board' was very 'insignificant', as the general manager commented:

‘The board is virtual. We currently have eight board members. But basically the board is not functional. Even though you have some shares in the company, these shares are too few and will not influence the company too much. The board should become a decision centre, however it is currently only for the purpose of motivating senior managers. We have no control over major decisions.’ (the general manager)

‘Function of the board’ has strong linkage with ‘ownership structure’. As a consequence, other board members actually had no right of decision making regarding Fumin’s strategic issues. This formed a fundamental reason for dysfunction of the current board.

### **Consequences**

Under this single owned and managed ‘governance structure’, Mr Fu had ‘strong enforceability’ to impose his ‘personal intentions’ into reality. Mr Fu’s enforceability was extremely well-known inside the organisation, as one senior manager noted:

‘Once Mr Fu has a concept, he would enforce you to accomplish it.’ (One senior manager)

From the subordinates’ perspectives, under the current single-owner controlled ‘governance structure’, ‘*duiren* behaviours’ were ‘prevalent’. In this particular Chinese company, ‘*duiren*’ refers to a kind of behaviour of making the boss (Mr Fu) happy and satisfied. Many managers pointed out that few inside the company dare to question Mr Fu and upset him in public. This phenomenon also appeared frequently during this diversification strategy formation. Its connotations were further elaborated according to the interviews (see Table 5.7).

<i>Duiren</i> behaviours	Quotes
Understanding of the personal intentions of individuals (here 'individual' refers to Mr Fu)	<p>'The planning department is not involved in this business (diversifying into the vehicle manufacturing), only Lee knows it well. He has followed Mr Fu for so many years, he knows exactly Fu's intentions.' (One middle manager)</p> <p>'Employees should understand Fu's intentions. During the process of justifying, we should consider personal values of decision makers.' (One senior managers)</p>
Satisfying the personal intentions of individuals (here 'individual' refers to Mr Fu)	<p>'Some managers like to meet Mr Fu's needs. They knew that some businesses would not be possible for us, but they still say "yes".' (One senior manager)</p> <p>'All managers want to build good relationship with Mr Fu. The relationship among managers was not important; only <i>the relationship</i> with Mr Fu will determine their promotion and interests...So, most managers intend to be responsible for Mr Fu rather than be responsible towards things. The phenomenon of satisfying the boss is prevalent inside the organisation.' (One internal consultant)</p>

Table 5.7: *Duiren* behaviours

'*Duiren* behaviours' were also partly facilitated by the concept of 'trust' (see Section 5.3.4). For instance, the staffing policy in Fumin implicitly benefited those trusted by Mr Fu himself. The key positions such as board members, general managers and senior managers would be definitely given to people whom Mr Fu trusted. Consequently the managers utilised the degree of trust they have gained from Mr Fu as a kind of evaluation of their personal status and security inside the organisation. Therefore, trust from Mr Fu itself became an objective for subordinates. As a result under the condition of single owner controlled governance structure, trust has facilitated or encouraged '*duiren* behaviours' of subordinates.

### 5.3.6 Conceptualising

From the interviews, this diversification strategy formation can be discerned into two major stages. The first stage recognised by the interviewees was 'conceptualising', which has witnessed the process of how the business idea of diversifying into the commercial vehicle manufacturing business came into shape inside the organisation. Based on this conceptualising stage, one strategic principle was firmly set up to guide the following activities of strategy formation. Table 5.8 has listed its relevant subcategories, properties and dimensions.

Subcategories	Properties	Dimensions
Heuristics	<i>Painaodai</i> Simplification Imagination Risk perception Information collection	Intuitive, experiential Simple Flexible Low Supportive
Consequences	Principle	Abstract
Speed	Several months	Fast
Participants	Scope Interaction	Very limited Informal

Table 5.8: Conceptualising

### Heuristics

Heuristics commonly refer to those decisions rules that ‘reduce the complex tasks of assessing probabilities and predicting values to simpler judgmental operations’ (Tversky and Kahneman, 1974, p.1124). Despite the complexity of diversifying into the commercial vehicle manufacturing business, the company seldom engaged themselves in complicated analytical techniques and procedures. Instead, they tended to simplify complex issues into easy judgements. Several heuristics, for instance, ‘*painaodai*’, ‘simplification’ and ‘imagination’, have been frequently used to shape the idea of diversifying into the commercial vehicle manufacturing business.

‘*Painaodai*’ referred to the way of following feelings and intuitions when making decisions, as one middle manager noted:

‘We should not *painaodai*. If we follow certain procedures to form decisions, these decisions will be far more effective than those based on *painaodai*. In addition, we should not rely on one or two people (here referring to Mr Fu) to make decisions. Experts should be introduced into the decision making system.’ (One middle manager)

According to the interviews, *painaodai* was essentially ‘intuitive’ and ‘experiential’, which can not be easily explained, as senior managers noted:

‘Mr Fu always has some intuitions about how to do business. This super ability can not be easily explained. In most of cases, he was right.’ (One senior manager)

‘Superficially you would think Fu acted on his impulses, but he was experiential in essence. In fact, with accumulation of hands on experience for so many years, his decisions were made after great caution even though they seemed to be not properly discussed inside the company.’ (the general manager)

Mr Fu provided a further explanation about the role of his intuitions and feelings on strategy formation:

‘Sometimes I have intuitions. If I feel unsure about some decisions, they must comprise some problems. For example, when we decided to initiate a hydraulic product, many experts were involved to evaluate this new product project, even including Vice Mayors of the *Mianyang* government. More than ten formal meetings were organised because I feel unsure about it. When I feel unsure, I will find experts for their opinions. However, sometimes I feel I will definitely succeed in some decisions, for instance, diversifying into the commercial vehicle manufacturing business. There is no need for discussions. We must do it! I do not care who will object to my decision!’ (Fu)

Besides ‘*painaodai*’, another important rule Mr Fu employed was ‘simplification’. One of the managerial skills he suggested to his managers was ‘*guanli jiushi jiandan*’ (management means simplicity). Mr Fu often utilised ‘*suandazhang*’ (calculating things in a general way rather than focusing on details) to simplify strategy formation. In addition, he likes to set up principles to guide the direction and leave details to his management team. His ‘simplification’ was reflected in his rationale for diversifying into the commercial vehicle manufacturing industry:

‘I made this decision (diversifying into commercial vehicle manufacturing) based on several simple reasons: firstly, the potential market (the commercial vehicle market) is huge; secondly, I have relevant resources (Fumin merged with SVGE); thirdly, I have personal desire; fourthly, I already promised the local governments I would enter into the commercial vehicle industry.’ (Fu)

Furthermore, 'imagination' has further enriched the business idea of diversifying into commercial vehicle manufacturing business. Mr Fu called his three solutions (see Section 4.3.4) as imagination (*shexiang*):

'Those solutions I have mentioned are only the imagination towards the Southwestern vehicle market. They are not based on scientific analysis.'  
(Fu)

Fu's imaginative solutions had great 'flexibility', as Mr Fu noted:

'Please do not worry about this decision. I clearly know what I am doing here. How to run this business and how much investment we will put in will depend on the development of the situation... If we can get investment from Korean vehicle manufacturers, we will target 10,000 commercial vehicles output annually, but it will take eight to ten years. If we can not get cooperation from Korean and domestic vehicle manufacturers, we will target at 100 to 500 commercial vehicles output annually by mainly using SVGE's current resources.' (Fu)

When tracing the origins of his imaginative solutions, Mr Fu mentioned his familiarity with vehicle products and also the importance of individual learning:

'These solutions were coming from me. I did not get any support from my subordinates...I am extremely familiar with the vehicle products, I have made one before...I like learning, and I learn everyday. I have subscribed to various books and magazines. Some friends also recommended some good books to me...' (Fu)

Inside the organisation, these three imaginative solutions have actually served as guiding strategic solutions. After Mr Fu proposed his three solutions, the organisation committed huge resources to justify them.

Furthermore, 'risk perception' of this diversification strategy was 'low'. Mr Fu regarded this strategy as a risk free strategy because he assumed that property development on SVGE's land would generate enough cash for development of its commercial

vehicle manufacturing business. He firmly believed that his strategy can only succeed and there was no possibility for him to retreat and lose.

In addition, 'heuristics' were also reflected in 'information collection' activities. One distinguished characteristic about 'information collection' lied in its 'supportive' nature towards Mr Fu's 'personal intentions'. As discussed in Section 5.3.1, strategic reorganisation of CSEs has exposed abundant market opportunities and information to CPEs. How to judge and sift the information was particularly significant to the future direction of CPEs. When Mr Fu heard that SVGE was currently in the stage of reorganisation, he brought this information to the corporation and regarded it as 'God's will' to encourage him to accomplish his personal intention. In addition, Lee's managerial team (*Chengdu* division) firmly believed that SVGE's seeking for a partner was a huge opportunity for Fumin. One strong argument proposed by Lee was that the huge value of SVGE's land would be beneficial for Fumin's future property development and relevant information of SVGE's land has been extensively collected. However information relating to the commercial vehicle manufacturing business was rarely found inside the organisation during the first phase of interviewing. From the above discussion, the personal intention of Mr Fu has served as a determinant factor in Fumin to guide information collection activities. Why could personal intention of Mr Fu so greatly influence corporate information collection activities? One important explanation is due to corporate *duiren* behaviours originated from the current governance structure. '*Duiren*' behaviour of Mr Fu's subordinates has facilitated the organisation to find supportive information to accomplish the personal intentions of Mr Fu. For instance, it was noticeable that there existed a widespread scepticism inside the organisation towards Lee, who was seen as a man who achieved his personal agenda via satisfying Mr Fu's personal needs. In this respect, it was the interaction between the 'personal intentions' of Mr Fu and the '*duiren*' behaviour of his subordinates that has helped Mr Fu turn his personal intention into an explicit strategic concept at corporate level.

### **Consequences**

A majority of the managers have highlighted the concept of 'principle' (*yuanze*), as one middle manager explained:

‘Mr Fu had already set up one principle. He told us that we can not discuss whether or not we should enter the commercial vehicle manufacturing industry, we can only discuss how to do it.’ (One middle manager)

This ‘principle’ was the direct outcome of the conceptualising stage. In terms of the function of this ‘principle’, it has provided an ‘abstract’ principle to guide the following strategic activities. A boundary has been built up by Mr Fu to identify the legitimacy of following strategic activities. Although much scope has been left to managers regarding detailed solutions or plans to develop the commercial vehicle business.

This principle turned out to be extremely unpopular inside the headquarters during the first-phase interview. Most of the managers saw this strategy as a mismatch between Fumin’s internal resources and the commercial vehicle manufacturing industry. In addition, little information about the commercial vehicle manufacturing business has been collected. Most of the managers in the headquarters had no confidence in this diversification strategy. However, this disagreement had never been dramatically exposed openly within the organisation. Many managers have followed Mr Fu for many years and had strong personal loyalty and trust in him. They kept silent or stood by Mr Fu even they were not convinced by this strategy. This was also a kind of reflection of *duiren* behaviour (see Section 5.3.5). In addition, Mr Fu would directly enforce his managers who opposed his decisions to do what they were told. In this aspect, Mr Fu played a role as a military commander with managers acting as his soldiers. For instance, in Oct 2002, Mr Fu organised a meeting with only two senior managers who were at the opposite stance and issued harsh orders to them:

‘You must implement my decision (diversifying into the commercial vehicle business) no matter whether you understand it or not! You can object to me three times. After three times, I had already considered all the issues you had addressed. I am not a fool! Therefore, my decision must be implemented! Nobody will raise any different opinions!’ (Fu)

Consequently, this ‘principle’ was put into practice due to a combination of subordinates’ *duiren* behaviours and Mr Fu’s ‘enforceability’.

## Speed

According to Mr Fu, speed was an important reason for making strategy in a simplified and fast way, as he explained:

‘ There won’t be time to prove! Time does not allow you to be indecisive. We must have speed!’ (Fu)

As mentioned in Section 4.3.2, in the first half of 2002, competition for merging with SVGE was extremely tense. Any hesitation about entering into the vehicle business would influence the success of obtaining the merger contract from local governments. Time pressure provided an explanation for the prevalent use of ‘heuristics’ during the conceptualising stage.

From the interviews, it took around ten months from Mr Fu first receiving information to him announcing his principle to the company, as retrospected by Lee:

‘We got the information last December (2001), after contact with SVGE several times, we felt SVGE’s land was good, but too expensive. Later we thought about the idea of merging with SVGE (around January, 2002)... We sent our merger proposal to the Mechanical Office of *Chengdu* government after the Spring festival (January 24, 2002)... It was in the August that the *Chengdu* government agreed we should merger with SVGE... Later, it was in September 2002 that Mr Fu formally declared in a management meeting that Fumin would diversify into the commercial vehicle business.’ (Lee)

However, this principle was made in Mr Fu’s mind in a far shorter time. One senior manager described its speed as ‘immediate’, as he explained:

‘In fact, the decision was made several months ago. When Fu first heard the information that SVGE was seeking partners, he immediately made up his mind to diversify into the vehicle business via SVGE. He had wanted this business for so many years.’ (One senior manager)

From the interviews, managers in the headquarters commented the speed of setting up a strategic principle was too ‘fast’. Even without clearly knowing the vehicle manufacturing industry, a principle has been fixed without any space to change.

## Participants

During the conceptualising stage, it had seen very 'limited' participants, including Mr Fu and Lee's managerial team in the *Chengdu* division; the senior managers were even excluded in this stage. Lee's managerial team mainly took the responsibility for information collection and merging with SVGE. They also suggested certain ideas, for instance merging with SVGE rather than buying its land to Mr Fu. However, the determinant actor was still Mr Fu himself. When interviewing the managers, all of them attributed this 'principle' to Mr Fu himself, as explained by several managers:

'Whether or not we enter into the vehicle industry is not up to me. It is up to my boss. I can not control how my boss makes decisions!' (Lee)

'In fact, the top managers only play a role as implementers; we have not exerted essential influence on strategy formation.' (One senior manager)

Mr Fu also believed that he was the determinant factor when making strategies:

'The boss should play a major role in making strategies. Even though the market information and research reports from different departments were important, finally it is my responsibility to make strategic decisions.' (Fu)

Mr Fu accounted for this lack of participation from his managerial team to their weak capabilities in judging important diversification strategies; some senior managers also admitted that they could not effectively support the diversification strategy formation, due to their lack of knowledge and experience in new businesses. Mr Fu noted:

'Regarding this diversification strategy, my managerial team only played a very minor role. I hope in the future they can play a bigger part. For instance, the corporate planning department should be more active in collecting information etc. to support strategy formation. Currently this department is still very weak and lacks professional specialists.' (Fu)

During the conceptualising stage, 'interaction' mainly happened between Mr Fu and Lee's managerial team and was characterised as being 'informal'. Formal reports and

meetings could seldom be found during the conceptualising stage. Instead, face to face talks and telephone conversations were common ways to share information and ideas. This informality was influenced by Mr Fu's personal management style, as the general manager noted:

'Mr Fu did not like formality. Before I took this position (general manager), I drafted a ten page report to Mr Fu to explain some ideas about how I will manage this company in the future. However, Mr Fu called me to his office and asked me why bother to do that, it will be better to have a face to face talk.' (the general manager)

### **5.3.7 Justifying**

'Justifying' was identified as the second stage of this diversification strategy formation. During the second-phase interviews, after Mr Fu had set up a firm principle in the organisation, his subordinates engaged in varied types of activities to 'justify' properness of his 'principle' in order to convince and assure themselves. The organisation also committed a large amount of resources to 'justify' Mr Fu's three imaginative solutions in order to turn Mr Fu's abstract principle into detailed strategic solutions. In Fumin, 'justifying' was a term that the managers used to describe their roles during this diversification strategy formation, as one middle manager complained:

'The strategy making procedure should not be like the current status. The boss made his decisions first; we have no right to verify whether they are actually wrong or not. What we can do is only to create reasons to justify they are right.' (One middle manager)

Compared with 'conceptualising', 'justifying' proved to be a much longer activity in this company who had previously had no business linkage with the vehicle manufacturing industry. Further delineation of 'justifying' can be seen from Table 5.9.

### **Heuristics**

Heuristics were also prevalent in the 'justifying' stage of this strategy formation. The major differences in heuristics between the 'conceptualising' stage and the 'justifying'

Subcategories	Properties	Dimensions
Heuristics	Information collection Gambling	Supportive Irrational
Experimenting	Doing	Multiple
Participants	Scope Interaction	Extensive Formal, informal
Speed	Around 1&1/2 years	Slow
Consequences	Strategic solutions	Clarified

Table 5.9: Justifying

stage were that they were located at different corporate levels. In the conceptualising stage, heuristics were largely utilised by Chairman Fu, for instance, '*painoadai*', 'imagination' and 'simplification'. However in the justifying stage, subordinates used heuristics to assure themselves that Mr Fu's principle was right.

Regarding 'information collection', organisational members tried to find 'supportive' information to assure themselves that Mr Fu's principle itself was appropriate. For instance, the commercial vehicle business was seen as a labour intensive industry and competition in the Southwest market was segmented in various local areas. Therefore Fumin would have a great chance to get into this industry if it was positioned in the right place, as one manager explained:

'Now is not the time to judge whether this decision is right or not. Since we have been told to implement it, we will try our best to find a better solution. I feel if we can position ourselves in the right way, we can win! In the current commercial vehicle market, multiple brands co-existed, these companies were no better than SVGE.' (One middle manager)

However, not all information was positive towards developing the commercial vehicle manufacturing industry. Developing into commercial vehicle manufacturing consumed a large quantity of capital which was beyond Fumin's current financial capability. However, this issue had never been seriously addressed inside the organisation.

The managers inside the organisation also took the chance of 'gambling'. For instance, some managers handed their destiny into the hands of luck and hoped that this strategy would '*waida zhengzhao*' (score lucky hits). This way of 'irrational' practise aroused many concerns in employees' minds. They constructed one sentence, in a sarcastic

way, to suggest that they should be '*pinbo*' (fighting hard) rather than '*dubo*' (gambling) when choosing their strategies and conducting their businesses:

'*Pinbo* (fighting hard) is not *dubo* (gambling)!' <sup>1</sup>

As a consequence, Mr Fu's strategic principle has never been seriously challenged or properly discussed inside the company. Instead, organisational members tried to find varied excuses to assure themselves that they were going in the right direction.

### **Experimenting**

'Experimenting' shaped an essential activity when 'justifying' Mr Fu's three imaginative solutions. In order to seek a proper solution to develop Fumin's commercial vehicle manufacturing business, the company has committed huge amounts of resources to experiment Mr Fu's three imaginative solutions in parallel. One essential property of 'experimenting' is 'doing'. 'Doing' was reflected in 'multiple' activities after Fumin merged with SVGE. For instance, Fumin remobilised SVGE's production lines in order to test the market. Fumin also initiated negotiations with several domestic and foreign commercial vehicle manufacturers for the purpose of building joint ventures etc. During the 'justifying' stage, it was difficult to find a specific department committed to market research and analysis. Instead all departments involved were occupied with actual 'doing'.

The advantages from 'experimenting' were multifold. Firstly, 'experimenting' facilitated learning by gaining experience and information in this new business. For instance, the trial production had provided valuable experience and knowledge for Fumin when drafting various short term plans. In addition, through trial production, the company gradually obtained detailed information about their customers, competitors and suppliers. Secondly, 'experimenting' served as a main way to assist the company to evaluate the feasibility of Mr Fu's three imaginative solutions and finalise strategic solutions. Via actual 'doing' feasible strategic solutions gradually became clear.

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<sup>1</sup>Here, Fumin people play on the word of '*bo*' which literally means 'fight'. However, new phrases of '*pinbo*' and '*dubo*' constructed on '*bo*' suggest completely different meanings. '*Pinbo*' (fighting hard) is seen as a very positive way to carry business; however, '*dubo*' (gambling) contains strong negative connotations. The whole sentence in the Chinese context is extremely funny in a sarcastic way.

## Participants

Contrary to ‘conceptualising’, this activity had ‘extensively’ involved internal and external actors. From the internal perspective, the headquarters and relevant subsidiaries all participated in this stage. From the external perspective, Fumin’s external *guanxi* was actively involved, in particular local governments. The *Chengdu* government assisted Fumin in negotiations with famous commercial vehicle manufacturers. Fumin also gained varied advantages for fees or tariff deductions relating to the vehicle production from the *Chengdu* government. The *Mianyang* government had also shown great concerns towards this diversification strategy. Mr Fu himself admitted that he was often inspired by some of his friends in local governments. For instance, when I interviewed the Vice Mayor of *Mianyang* government, he commented on this diversification strategy:

‘Mr Fu should be very careful about this strategy. Some issues need to be clearly addressed. For instance, which type of products should Fumin focus on? where are Fumin’s advantages in developing this new business? ...If Fumin cooperated with foreign investors, the risk might be possibly lower. Currently we are trying to contact the Korean vehicle manufacturers. The *Mianyang* government historically has a good relationship with Korean governments...I feel if this strategy were wrong, the loss for Fumin would be enormous. I do not feel particularly sure about this strategy.’ (the Vice Mayor of *Mianyang* government)

In the justifying stage, ‘interaction’ contained a combination of ‘formality’ and ‘informality’. Formality was reflected on corporate meetings and various written reports. Informality was also a major form for communicating and sharing information and ideas, for instance, face to face talks and telephone conversations etc. Hierarchy portrayed in the organisational chart was not exactly followed. For instance, managers in SVGE would sometimes directly contact Mr Fu without formally informing senior managers in the headquarters.

## **Speed**

Dissatisfaction towards Lee and his team was prevalent among senior managers during the second-phase interviews. One major reason attributed to the 'slow speed' of finalising strategic solutions, as the general manager criticised:

'This project (the commercial vehicle manufacturing business) itself is very good. However if we carry on at this speed for another half year, this business will be dead. Now many competitors have suddenly emerged in the first half of this year (2003). We have possibly missed the best opportunity...' (the general manager)

'Slow speed' was attributed to several factors. One major explanation from senior managers was due to 'fast' speed at the conceptualising stage. Because Mr Fu set up a strategic principle without sound knowledge of the vehicle manufacturing business, Fumin has to engage in a long process of 'justifying' so as to make sure they secured the right solution to realise Mr Fu's principle, as the general manager commented:

'Mr Fu did not take a long time to set up his principle. However the time saved in the beginning stage of the strategy formation was wasted in the later stage. Actually we should prolong the former stage of strategy formation. We should have a thorough investigation and understanding of the market before we set up our principle and strategy. Once we have decided we should put the strategy into practice quickly. Now we are still hesitant and have no idea how to carry on this new business. A lot of valuable time has been wasted.' (the general manager)

In addition, the 'slow speed' was also associated with practice during the justifying stage, for instance, 'experimenting'. 'Experimenting' Mr Fu's three solutions in parallel had prolonged the process and also caused great confusion inside the group in 2003.

## **Consequences**

As a major consequence of the 'justifying' stage, there has seen a much 'clarified strategic solution' gradually emerging in the beginning of 2004. After a long process

of ‘experimenting’, Mr Fu’s three imaginative solutions were further locked into two solutions including ‘*da*’ (big) solution and ‘*xiao*’ (small) solutions. As a result relevant operational plans were developed. In addition, SVGE’s structure was rearranged and separate departments were set up to take responsibility for elaborating and implementing these two major solutions. With clarification of strategic solutions and structural change, a better performance of this new business has been seen in 2004.

## **5.4 Summary**

This chapter mainly records the results derived from the open coding analysis. In the beginning of the chapter, the general research question was reflected and further elaborated into three more detailed research questions. These research questions were inspired by those emergent categories, which shed significant explanations towards the phenomena researched in this study. These research questions were followed by detailed illustrations of seven categories grounded on the evidence. The relationships between categories, subcategories, properties and dimensions are also discussed when necessary in order to deepen the understanding of these emergent individual categories.

This chapter purports to construct building blocks for further axial and selective coding. These seven emergent categories, outcomes of this initial coding process, fulfil this purpose. In the next chapter the coding process will step into a more abstract level in the pursuit of grasping the essence of the researched phenomena at a conceptual level.

## **Chapter 6**

# **TOWARDS A GROUNDED THEORY OF 'INTENTION LEGITIMISING'**

### **6.1 Introduction**

This chapter has seen the gradual appearance of the grounded theory of 'intention legitimising'. By utilising the techniques of axial coding and selective coding the complicated relationship between the categories has emerged; the central category has become distinguished. However it has been found that, even though distinction can be drawn between axial coding and selective coding from the theoretical level, as discussed in Chapter 3, it was extremely difficult to clearly separate these two coding procedures when actually conducting analysis and writing up the relevant findings. For instance, the emergence of the central category (within the domain of selective coding) is based on synthesising complex relationships between categories (which can be described to be the primary purpose of axial coding). In this aspect, the selective coding itself is a more abstract level of axial coding because the resultant central category has to be substantially linked with other categories. Therefore relating to the writing style I did not intentionally separate axial coding and selective coding into two different chapters, instead I integrated them together.

This chapter starts directly from identifying the central category. The paradigm model, a primary tool for axial coding, assists in systematically integrating the context, action and consequences of this diversification strategy formation. The discussion then

goes on to explore the central category of ‘intention legitimising’ which was discovered by constantly reflecting the paradigm model, and following some other techniques suggested in the selective coding (Strauss and Corbin, 1998). In the third section the concept of ‘intention legitimising’ is further enhanced by focusing on three sub research questions. At the end of the Chapter, a concise and integrated grounded theory of ‘intention legitimising’ is constructed to synthesise the whole research.

## **6.2 Identify ‘Intention Legitimising’ as the Central Category**

### **6.2.1 A paradigm model of strategy formation**

The paradigm model is an analytical tool to be utilised to facilitate the synthesising process between varied categories. According to Strauss and Corbin (1990), a paradigm model comprises four basic elements including context, phenomenon, actions/interactions and consequences. Context represents ‘the particular set of conditions within which the action/interactional strategies are taken’ (Strauss and Corbin, 1990, p. 96), and contains causal and intervening conditions (Strauss and Corbin, 1990). Causal conditions refer to ‘events, incident, happenings that lead to the occurrence or development of a phenomenon’ (Strauss and Corbin, 1990, p. 96). Intervening conditions act to either ‘facilitate or constrain the strategies taken within a specific context’ (Strauss and Corbin, 1990, p. 97). Phenomenon refers to ‘the central idea, event, happening, incidents about which a set of actions/interactions are directed at managing or handling, or to which the set of actions are related’ (Strauss and Corbin, 1990, p. 96). In this study, the diversification strategy formation is the phenomenon which all interviews and observations have directed. Actions and interactions refer to ‘strategies devised to manage, handle, carry out, respond to a phenomenon under a specific set of perceived conditions’ (Strauss and Corbin, 1990, p. 97). Consequences mean ‘outcomes or results of action and interaction’ (Strauss and Corbin, 1990, p. 97).

This analytical tool has greatly facilitated the synthesis process which intends to relate varied categories and reflect a complete picture of the researched phenomena at a con-

ceptual level. By following this tool a paradigm model has been developed to explain the strategy formation in this particular Chinese private context (see Figure 6.1).

Mr Fu's 'personal intentions', generated from his 'hard life experiences' in the past, served as underlying causal conditions for diversifying into the commercial vehicle manufacturing industry. Mr Fu had a strong tendency to accomplish his personal intentions. This was reflected in his own behaviours of constantly seeking opportunities to diversify into this new business.

'Strategic reorganisation of CSEs', 'local governments', 'organisational *guanxi*' and 'governance structure' are categorised as intervening conditions which function as either facilitating or constraining factors of this strategy formation. Their function on strategy formation and their interaction are briefly explained in the following:

'Strategic reorganisation of CSEs' has generated 'abundant opportunities' for Fumin to diversify into new businesses. SVGE's reorganisation was also an opportunity derived from 'strategic reorganisation of CSEs'. This factor mainly acts as a facilitating factor. The opportunities released from 'strategic reorganisation of CSEs' were largely controlled by 'local governments'. By utilising the 'organisational *guanxi*', especially '*zhengzhi guanxi*', the organisation can turn these 'opportunities' into internal capabilities. In this respect the function of 'local governments' was conditional upon the strengths of 'organisational *guanxi*' especially '*zhengzhi guanxi*'. If '*zhengzhi guanxi*' was strong, local government could facilitate the strategy formation, whereas if '*zhengzhi guanxi*' was weak, local government could constrain the strategy formation. Successfully merging with SVGE was a case to reflect the facilitating role of 'local governments'. Consequently 'organisational *guanxi*' can either facilitate or constrain the strategy formation, depending on its 'strengths'. Strong 'organisational *guanxi*' facilitated the strategy formation whereas weak 'organisational *guanxi*' constrained the strategy formation. Generally in this case, the interaction between 'strategic reorganisation of CSEs', 'local governments' and 'organisational *guanxi*' has facilitated the realisation of 'personal intentions' of the 'Chinese *siying qiyejia*'.

The 'single owner-controlled governance structure' formed an amicable structural context for accomplishing 'personal intentions' of the 'Chinese *siying qiyejia*'. Under this 'single owner-controlled governance structure', the 'Chinese *siying qiyejia*' had 'strong enforceability' to turn his 'personal intentions' into corporate strategies. More-

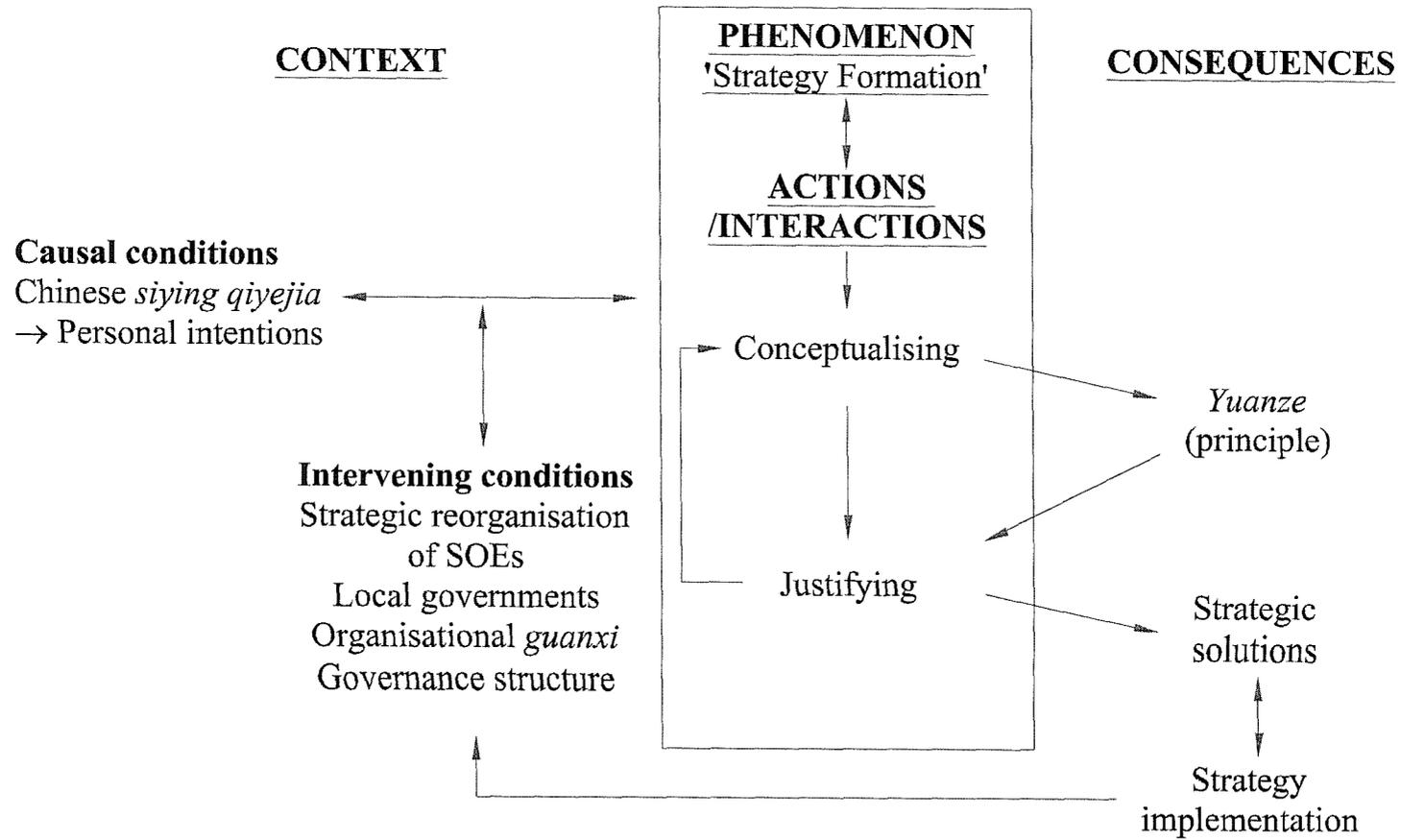


Figure 6.1: A paradigm model of strategy formation

over, managers tended to adopt '*duiren* behaviours' of satisfying their owner's personal intentions so as to enhance their own interests within the company. Apart from this structural influence '*duiren* behaviours' were also facilitated by the 'personal value' of the 'Chinese *siying qiyejia*'. 'Personal trust' gained from the 'Chinese *siying qiyejia*' served as an implicit rule to decide interests and positions of managers. As a consequence, managers were inclined to use '*duiren* behaviours' to gain 'personal trust' so as to strengthen their own personal interests inside the company. Therefore, 'single owner-controlled governance structure' acted as a facilitating role of the strategy formation.

Two stages have been discerned as major actions/interactions during this diversification strategy formation. These two stages did not suggest that they were in a pure sequential order. Instead, they were overlapping and mutually interdependent. The first stage was 'conceptualising' which oversaw how business concepts or ideas of diversifying into the commercial vehicle manufacturing industry came into shape. 'Heuristics', including '*painaodai*', 'simplification' and 'imagination', have been extensively employed by the 'Chinese *siying qiyejia*' to simplify complicated situations. As a consequence of the 'conceptualising' stage an 'abstract principle' was fixed to set up boundaries for following strategic activities. In the second stage of 'justifying', employees intensively utilised 'heuristics' and 'experimenting' to justify Mr Fu's principle and his imagination. In consequence, a more 'clarified strategic solution' was developed with the support of structural change. These two stages have delineated major characteristics of strategy formation in this particular Chinese context.

### **6.2.2 The discovery of 'intention legitimising' as the central category**

Identification of the central category is the most abstract level of theorising in grounded theory. This stage requires the clarification of central category that 'consists of all the products of analysis condensed into a few words that seem to explain what this research is all about' (Strauss and Corbin, 1998, p. 146). It also means that emergent central category should be able to accommodate the essential nature of observed phenomenon at a conceptual level (Glaser, 1978; Strauss and Corbin, 1998). Accordingly, this stage requires researchers having an extremely high level of synthesising skills

in order to grasp the core. Strauss and Corbin (1998) provide two ways to develop a central category:

‘A central category may evolve out of the list of existing categories. Or, a researcher may study the categories and determine that, although each category tells part of the story, none captures it completely. Therefore, another more abstract term or phrase is needed, a conceptual idea under which all the other categories can be subsumed.’ (Strauss and Corbin, 1998, p. 146)

By constantly reflecting the data and the paradigm model I strongly sensed that each category only told part of the story in relation to conditions, actions and consequences of this diversification strategy formation. However, none could be elevated to the central category which subsumes all other categories and supplies a sufficient explanation to ‘what is really going on there’ (Strauss and Corbin, 1998). Therefore, a more abstract category is needed for this study.

### **Identification of ‘intention legitimising’**

Several techniques have been provided to identify the central category (Strauss and Corbin, 1998). They suggest to write the storyline and sort memos to grasp the essence of the story (Strauss and Corbin, 1998). In this study, sorting memos and reflecting the paradigm model have been mainly used for identifying the central category.

In addition, they also suggest researchers should stand back and ask the following questions in order to clarify the central meaning of the data:

‘What is the main issue or problem with which these people seem to be grappling? What keeps striking me over and over? What comes through, although it might not be said directly?’ (Strauss and Corbin, 1998, p. 148)

These questions were particularly inspiring for identifying the central category of this study. In this study two major concerns were constantly addressed by interviewees regarding the diversification strategy formation. One related to Mr Fu, the Chinese *siying qiyejia* himself, the other was connected with his subordinates. In relation to the

‘Chinese *siying qiyejia*’ he has a strong tendency to realise his ‘personal intentions’ whose impacts were particularly uncertain for the company. Under the current single owner-controlled ‘governance structure’ the ‘Chinese *siying qiyejia*’ held strong ‘enforceability’ to push the organisation to accomplish his ‘personal intentions’. No single party inside the company could control or balance his power. For instance, during the stage of ‘conceptualising’, Mr Fu utilised his authority and directly legitimised his ‘personal intentions’ into a strategic ‘principle’ even without the organisation going through analysis or investigation processes. This has aroused great concerns among senior managers:

‘Once Mr Fu has an intention, he would like you to accomplish it. We have no strategic planning. Mr Fu intends to employ his intentions to replace the strategic planning system, replace facts, replace objectivity.’ (One senior manager)

‘He currently has only one intention. He wants to diversify into the vehicle manufacturing industry, but we have no idea about how to diversify into this business... Mr Fu always has intentions first, then he would try different ways to make sure you do things for the purpose of realising his intentions.’ (the general manager)

Another major concern related to subordinates. ‘*Duiren* behaviours’ from subordinates were prevalent during strategy formation. For instance, Mr Fu’s ‘principle’ has seldom been challenged and subordinates would utilise various excuses including ‘supportive information’ or ‘gambling’ to ‘justify’ its properness. Even though subordinates were clearly aware of their ‘*duiren* behaviours’, they seldom changed their behaviours for fear of losing their own security and interests inside the organisation. As a consequence, legitimacy of ‘personal intentions’ was further strengthened by subordinates by ‘justifying’ or conforming to the ‘principle’ set by the ‘Chinese *siying qiyejia*’.

By following these techniques including reflecting on the paradigm model, sorting memos and asking questions, the concept of ‘intention legitimising’ was developed as the central category to answer the major concern of the interviewees. Here, ‘intention’ refers to ‘personal intention’ of the ‘Chinese *siying qiyejia*’. This concept has constantly appeared in the evidence and has been fully explained in Section 5.3.4. The

general managers emphasised the importance of ‘personal intentions’ of the ‘Chinese *siying qiyejia*’, and generalised about other Chinese private enterprises:

‘CPEs are all like this. Subordinates run the business based on the intentions of the boss.’ (the general manager)

According to the New Oxford Dictionary of English (Pearsall, 1998, p. 1053), ‘legitimise’ is a verb derivative of ‘legitimate’. ‘Legitimate’ is defined as the following:

**‘LEGITIMATE-** (Core Sense) conforming to the law or to rules: his claims to legitimate authority. (Sub sense one) able to be defended with logic or justification: a legitimate excuse for being late.’ (Pearsall, 1998, p. 1053).

In this particular Chinese context, the ‘Chinese *siying qiyejia*’ had a strong tendency to accomplish his ‘personal intentions’ which originated from his ‘hard life experiences’. Under the ‘single owner controlled governance structure’, the ‘Chinese *siying qiyejia*’ had absolute authority to set up rules to render legitimacy to his own ‘personal intentions’. ‘Principle’ (*yuanze*) has served as a rule by which the ‘Chinese *siying qiyejia*’ has been able to legitimise his ‘personal intentions’. This rule also defined boundaries to judge the properness of activities during the strategy formation. In order to result in corporate actions, the legitimacy of ‘personal intentions’ needed to be acknowledged at the organisational level. Under ‘single owner controlled governance structure’, ‘*duiren* behaviours’ were prevalent inside the organisation. The legitimacy of ‘personal intentions’ was not challenged, instead it was strengthened at the organisational level by subordinates via the activity of ‘justifying’. ‘Organisational *guanxi*’ was actively maneuvered to obtain opportunities so as to create feasibility for ‘intention legitimising’. As an aggregate consequence ‘personal intentions’ of ‘Chinese *siying qiyejia*’ were finally legitimised inside the organisation and resulted in corporate actions. Therefore from perspectives of both ‘Chinese *siying qiyejia*’ and subordinates, the diversification strategy formation was a process of ‘intention legitimising’.

Based on the above explanations, under this particular Chinese private context, ‘intention legitimising’ can be defined as a process of making the ‘personal intentions’ of

‘Chinese *siying qiyejia*’ appear proper or justified for the purpose of initiating corporate actions. ‘Intention legitimising’ forms the central characteristic of strategy formation in this CPE.

‘Intention legitimising’ has been further debated between the researcher and some interviewees. The interviewees have acknowledged the concept of ‘intention legitimising’ and provided their reasons for ‘intention legitimising’:

‘Intention legitimising has its *biranxing* (inevitability) and *o’ranxing* (fortuity or chance). It is inevitable because Chinese *siying qiyejia* have strong tendencies to accomplish their personal intentions, and owner controlled governance structure will inevitably lead to this phenomenon. However, intention legitimising also has its *o’ranxing* (fortuity or chance). At the moment, many state-owned companies are under reform. This created great chances for Chinese *siying qiyejia* to accomplish their own personal intentions.’ (One internal consultant)

### **Criteria for choosing ‘intention legitimising’ as the central category**

Strauss and Corbin (1998, p. 147) provide six criteria for choosing central categories:

1. It must be central; that is, all other major categories can be related to it.
2. It must appear frequently in the data. This means that within all or almost all cases, there are indicators pointing to that concept.
3. The explanation that evolves by relating the categories is logical and consistent. There is no forcing of data.
4. The name or phrase used to describe the central category should be sufficiently abstract that it can be used to do research in other substantive areas, leading to the development of a more general theory.
5. As the concept is refined analytically through integration with other concepts, the theory grows in depth and explanatory power.

6. The concept is able to explain variation as well as the main point made by the data; that is, when conditions vary, the explanation still holds, although the way in which a phenomenon is expressed might look somewhat different. One also should be able to explain contradictory or alternative cases in terms of that central idea.

Regarding the first and third criterion, 'intention legitimising' is a central concept which subsumes all the other categories, which act as either conditions, actions/interactions or consequences in the paradigm model. 'Personal intentions' of 'Chinese *siying qiyejia*' is a causal condition leading to 'intention legitimising'. 'Strategic reorganisation of CSEs' has provided 'abundant opportunities'. By cultivating 'organisational *guanxi*', especially '*zhengzhi guanxi*' with 'local governments', these 'opportunities' were successfully internalised so as to create feasibility for 'intention legitimising'. Some interviewees also provided similar explanations for 'intention legitimising'. Furthermore, 'conceptualising' has led 'personal intentions' into 'principle', which stands as a rule to render legitimacy to 'personal intentions' of the 'Chinese *siying qiyejia*'. 'Justifying' has strengthened the legitimacy of 'principle'. As a consequence, the 'personal intentions' of the 'Chinese *siying qiyejia*' are legitimised into 'clarified strategic solutions' to direct future corporate actions. The concept of 'intention legitimising' relates all the categories in a logical and consistent way. There is no forcing of data.

In terms of the second criterion, there are plenty indicators pointing to the concept of 'intention legitimising', for instance, the constant appearance of 'personal intentions', 'justifying', 'principle', '*duiren* behaviours' etc.

In relation to the fourth criterion, 'intention legitimising' has provided an abstract concept, which could be potentially tested in other substantive areas in order to generate a more formal theory. Based on the grounded theory methodology, two kinds of theory will be generated including substantive theory and formal theory (Glaser and Strauss, 1967, pp.32-35). Substantive theory is developed for 'a substantive, or empirical, area of sociological inquiry, such as patient care, race relations'; 'formal theory' is developed for 'a formal, or conceptual, area of sociological inquiry, such as stigma, deviant behaviour... authority and power' (Glaser and Strauss, 1967, p.32). Both theories are regarded as middle range theories, which 'fall between the 'minor working hypotheses' of everyday life and the 'all-inclusive' grand theories' (Glaser and Strauss, 1967,

p.33). In this study, the generated grounded theory of ‘intention legitimising’ can only be modestly called a ‘substantive theory’, which is grounded on a specific empirical area: strategy formation in a Chinese private context. However, this empirical or substantive theory of ‘intention legitimising’ can potentially enrich the formal theory of strategy formation. For instance, by comparing ‘intention legitimising’ with broad theoretical models in current strategy formation literature, existing formal theories can be more robust by integrating the Chinese private context.

Relating to criterion five, it has seen that ‘intention legitimising’ gradually grows in depth and explanatory power by integrating other categories. This point will be clearly seen in the discussion of the next section. Regarding the last criterion, variation has been built into the grounded theory via giving specific dimensions to the categories under this particular Chinese private enterprise. As Strauss and Corbin (1998) suggest, not all the cases will neatly fall into the same pattern. Instead, they will vary in degree or even suggest different patterns. For instance, under this Chinese private context, ‘intention legitimising’ has resulted into realisation of ‘personal intentions’ into final corporate strategy. However, this realisation is conditional upon the ‘strength’ of ‘organisation *guanxi*’ and ‘single owner controlled governance structure’. Without these conditions, ‘intention legitimising’ will possibly suggest different paths and outcomes. The following section will supply further discussions on this point.

## **6.3 Towards a Grounded Theory of ‘Intention Legitimising’**

### **6.3.1 The characteristics of ‘intention legitimising’**

This section focuses on illustrating the characteristics of ‘intention legitimising’ from the processual perspective. ‘Conceptualising’ and ‘justifying’ are two major actions to handle ‘intention legitimising’. Figure 6.2 is developed to depict complex relationships between these two actions and among varied participants for the purpose of enriching the understanding towards ‘intention legitimising’.

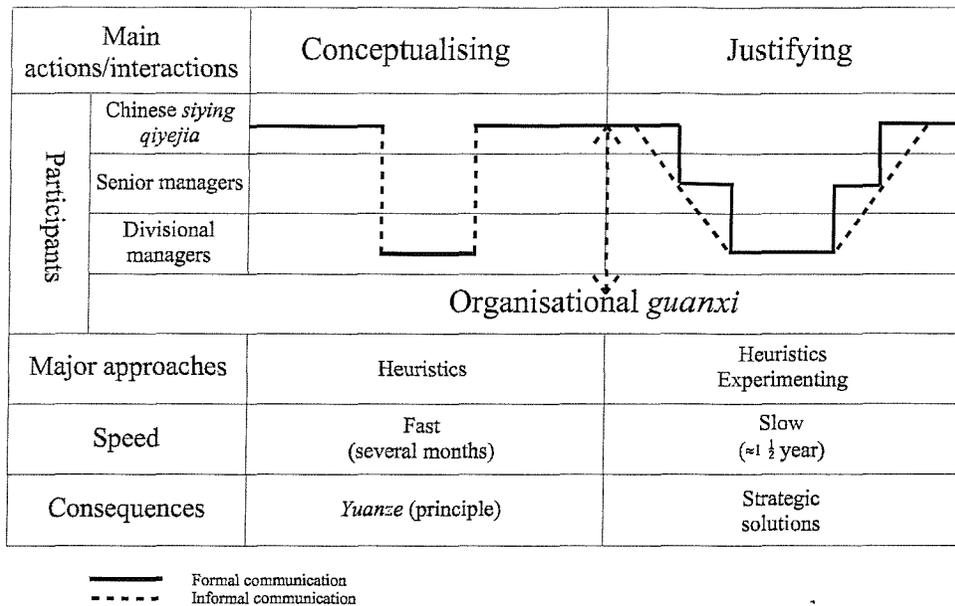


Figure 6.2: The characteristics of ‘intention legitimising’

In relation to the action of ‘conceptualising’, participants were mainly located at the level of the Chinese *siying qiyejia* and divisional managers, who were familiar with situations or convenient for investigating situations. For instance, in this particular case, divisional manager refers to Mr Lee, the original manager responsible for businesses in the *Chengdu* area. Senior managers in the headquarters have been largely bypassed. Another important actor during conceptualising was organisational *guanxi*, mainly including *zhengzhi guanxi* and *guanxi* with banks. Those *guanxi* provided extremely important information and resources to facilitate conceptualising. For instance, the successful merger with SVGE created feasibility for realisation of personal intentions. During this stage, interaction among varied participants has shown strong characteristics of informality (presented as dotted lines). This was evidenced during the first phase of interviews when few written reports or minutes of meetings could be traced. In addition, the organisation, especially the Chinese *siying qiyejia* has intensively resorted to heuristics to construct business ideas and concepts. These heuristics speed up the action of conceptualising. Consequently a principle was set up to define a boundary for following strategic activities. In this respect, personal intentions of the Chinese *siying qiyejia* was legitimised as a principle by the Chinese *siying qiyejia* himself.

Regarding the ‘justifying’, it has seen extensive participation including the Chinese *siying qiyejia*, senior managers, divisional managers and organisational *guanxi*. Heuristics were still prevalent inside the organisation. However, compared with the action of conceptualising, heuristics were more reflected at subordinates level in order to reassure themselves. In this respect legitimacy of the principle was strengthened rather than challenged. In addition experimenting, as a complement to heuristics, was a major way to gain experience in the new business in order to develop a more clarified strategic solution. Organisational *guanxi* was also an important actor to supply ideas, information and resources. For example, one Vice Mayor of the *Chengdu* government led Mr Fu’s managerial team in order to introduce investment to Fumin’s new commercial vehicle manufacturing business. Interaction between various levels of participants has shown combined features of formality and informality. The speed for this action was relatively longer.

In addition, the relationship between conceptualising and justifying is not purely sequential. Instead, they are constantly overlapping and recurring, depending on conditional factors including organisational *guanxi* etc. Not all personal intentions of the Chinese *siying qiyejia* can be successfully legitimised into corporate strategies. This legitimacy was more conditional upon the strength of organisational *guanxi* in obtaining proper resources. For instance, Mr Fu failed to transform the *Shanchuan* Vehicle Factory into a vehicle manufacturing business due to weak capability of this merged business. As a consequence, the Chinese *siying qiyejia* will keep seeking other opportunities to legitimise his personal intentions. A new round of conceptualising and justifying would be initiated when proper opportunities arose. This formed a constant loop between these two actions, also between actions and conditions.

### **6.3.2 Chinese *siying qiyejia* as a determinant for ‘intention legitimising’**

Chinese *siying qiyejia* was a determinant factor for ‘intention legitimising’ by shaping its causal and intervening conditions, influencing actions and authorising consequences. This has been depicted in Figure 6.3.

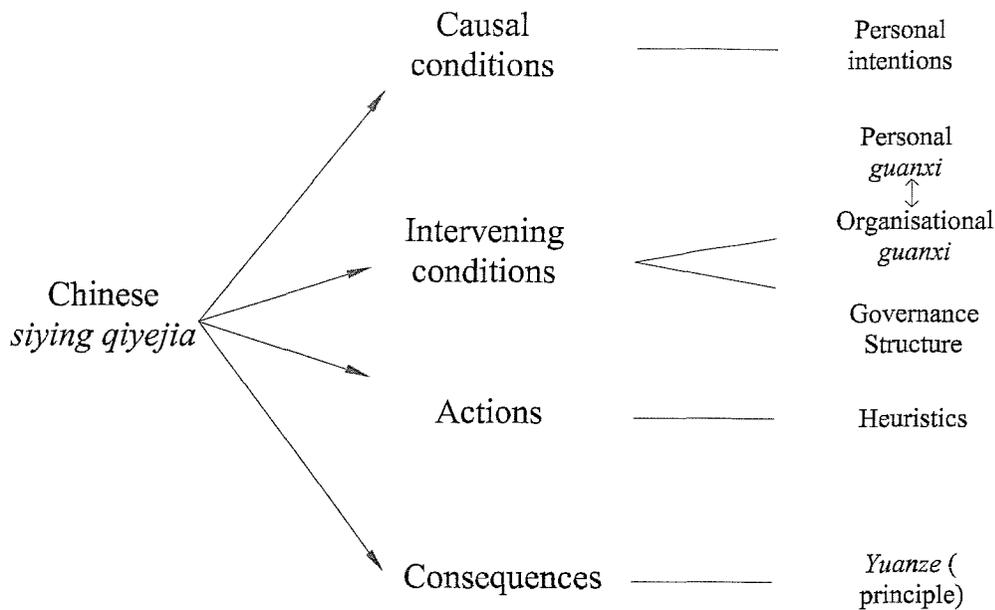


Figure 6.3: Chinese *siying qiyejia* as a determinant for ‘intention legitimising’

Personal intentions of the Chinese *siying qiyejia* has served as underlying causal conditions to initiate ‘intention legitimising’. Apart from being a causal condition, the Chinese *siying qiyejia* held strong capabilities to create favourable conditions for actualising his personal intentions. This was reflected in two major conditional mechanisms. Firstly, the Chinese *siying qiyejia* played a central role in weaving organisational *guanxi*. Based on years of business experiences, the Chinese *siying qiyejia* accumulated a strong personal *guanxi* network, which served as a core to organisational *guanxi*. In addition, the Chinese *siying qiyejia* was also a major facilitating factor to transfer individual *guanxi* of his subordinates to organisational level. By cultivating organisational *guanxi*, the Chinese *siying qiyejia* can successfully seize opportunities generated from the external environment for achieving his personal intentions. Secondly, the Chinese *siying qiyejia* determined corporate governance structure. Under single owner-controlled governance structure, the Chinese *siying qiyejia* has decisive power to legitimise his personal intentions. This governance structure also facilitated prevalent ‘*duiren* behaviours’ which in turn strengthened legitimacy of the personal intentions of the Chinese *siying qiyejia*.

Moreover, as a major actor during strategy formation, the Chinese *siying qiyejia* influenced actions in an extensive way, such as participants, communication, major approaches etc. Communication during strategy formation has shown a strong informal characteristic even though the company has grown into a large sized private enterprise. This informality reflected personal preference of the Chinese *siying qiyejia*. Furthermore, the Chinese *siying qiyejia* intensively employed heuristics to simplify complicated decisions. These heuristics appeared to be contagious within the organisation; it has seen that subordinates also employed heuristics to guide their judgement. Furthermore, the Chinese *siying qiyejia* also has the absolute authority to control consequences. Via setting up a principle, the Chinese *siying qiyejia* created a rule to self legitimise his personal intentions. In addition the rule also set boundaries to judge the legitimacy of following strategic activities.

In summary, in this particular Chinese context, the Chinese *siying qiyejia* acted as a determinant for ‘intention legitimising’ by deciding or influencing conditions, actions and consequences of the strategy formation.

### **6.3.3 Organisational *guanxi* as a major means for ‘intention legitimising’**

Under this specific Chinese context, organisational *guanxi* was a major means for ‘intention legitimising’. Organisational *guanxi* fundamentally comprised strong political features, with *zhengzhi guanxi* as a core in its *guanxi* scope. This characteristic of organisational *guanxi* was inseparable from current transitional economy, with local governments representing ownership of the state wealth. With the further liberalisation and privatisation of the Chinese economy, CPEs have to resort to local governments for resources in order to gain fast expansion. The general manager provided great insights towards the essential nature of organisational *guanxi* in CPEs:

‘Currently China lacks a lot of rules and therefore has become a paradise for risk takers...There exist many opportunities during the transitional economy. However the majority of these opportunities relate to occupation and reallocation of current social and political resources rather than creation of new resources. For instance, we call our mergers and

acquisitions *ziben yunzuo* (capital operation). In fact, it means to obtain state-owned resources at a cheaper price by manoeuvring *zhengzhi guanxi*. It is a political process...The key to grasp these opportunities is to look through the politics. You can never act against the law but you should capitalise on the gaps in current laws and policies. Accordingly, you must have strong *zhengzhi guanxi* and know how to *goudui* with governments.’  
(the general manager)

In this respect, organisational *guanxi* was fundamentally a political process, with knowing politics as a necessary skill. Knowing politics means knowing politicians, having knowledge of policies and also knowing social skills when interacting with government officials.

Function of organisational *guanxi* on strategy formation was enormous, with creation of resources capability to provide chances for ‘intention legitimising’. In this specific Chinese context, resources referred to tangible and also intangible assets, which have both contributed to facilitate ‘intention legitimising’. The typical tangible resources comprised land, factory, facilities, licenses, human capitals etc; while the intangible resources contained information, ideas, privileges, legal protection etc. All these elements have become key inputs for ‘intention legitimising’.

Organisational *guanxi* was only a mechanism to bridge the external resources and internal capabilities so as to create resources capability for actualisation of personal intentions. In this respect, organisational *guanxi* has served as a major means for ‘intention legitimising’.

#### **6.3.4 Towards a grounded theory of ‘intention legitimising’**

This section synthesises the whole research and presents a grounded theory of ‘intention legitimising’ to explain the diversification strategy formation in this particular Chinese private context. The grounded theory of ‘intention legitimising’ is narrated as follows:

Under this particular Chinese private context, strategy formation becomes ‘intention legitimising’. ‘Intention legitimising’ refers to a process of mak-

ing ‘personal intentions’ of ‘Chinese *siying qiyejia*’ appear proper or justified for the purpose of initiating corporate actions. ‘Personal intentions’ of the ‘Chinese *siying qiyejia*’ are causal conditions for ‘intention legitimising’. ‘Organisational *guanxi*’ and ‘governance structure’ act as two major intervening conditions for ‘intention legitimising’. ‘Strong organisational *guanxi*’ will facilitate, whereas ‘weak organisational *guanxi*’ will constrain, ‘intention legitimising’. In addition, ‘single owner controlled governance structure’ will facilitate, whereas ‘multiple owner controlled governance structure’ would constrain, ‘intention legitimising’. ‘Intention legitimising’ is realised via two major actions including ‘conceptualising’ and ‘justifying’. ‘Conceptualising’ creates a rule which renders legitimacy to ‘personal intentions’; ‘justifying’ further strengthens the legitimacy of ‘personal intentions’. Consequently, ‘personal intentions’ of the ‘Chinese *siying qiyejia*’ can or cannot be legitimised into the final corporate strategy, conditional upon the factors of ‘organisational *guanxi*’ and ‘governance structure’. During ‘intention legitimising’, ‘Chinese *siying qiyejia*’ acts as a determinant role on ‘intention legitimising’, whilst ‘organisational *guanxi*’ serves as one major means for ‘intention legitimising’ (see Figure 6.4).

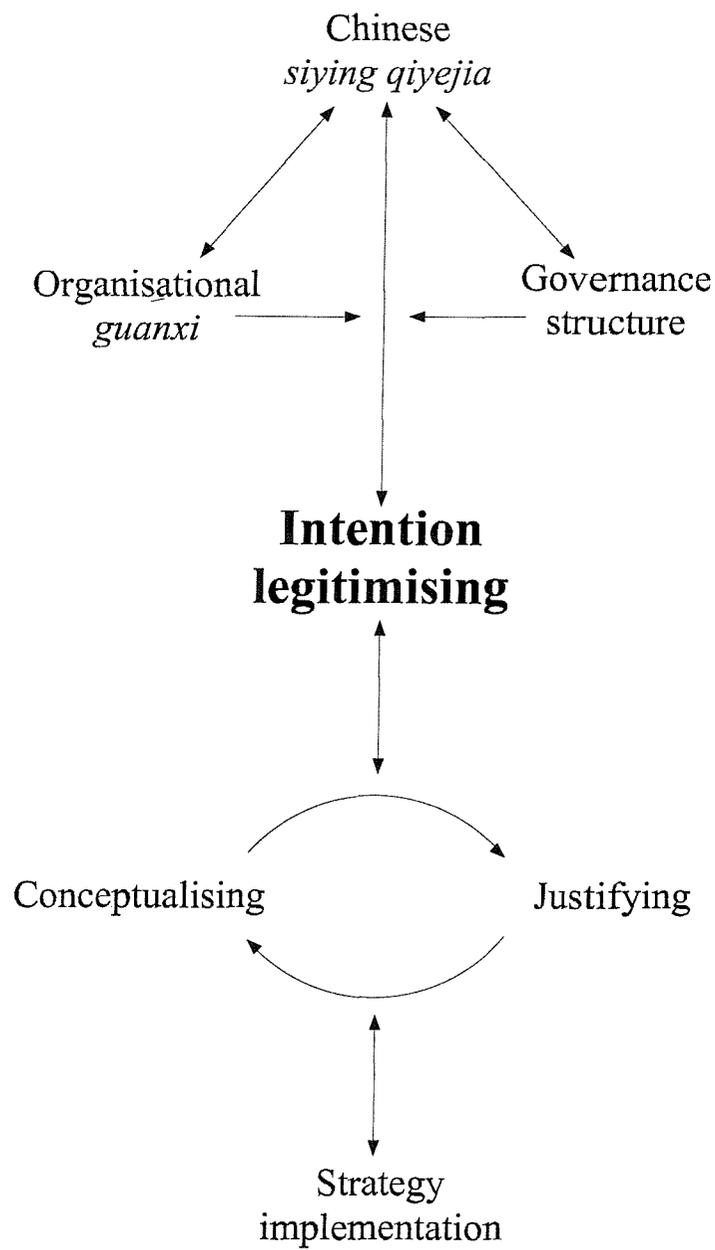


Figure 6.4: A grounded theory of 'intention legitimising'

## 6.4 Summary

This chapter has documented findings mainly from the axial coding and selective coding stage. An emergent grounded theory of ‘intention legitimising’ has come into shape to explain the essential nature of the observed diversification strategy formation in this particular Chinese Private Enterprise. The central category of ‘intention legitimising’ is developed in this study and its validity as a central category is evaluated by comparing with criteria provided by Strauss and Corbin (1998). This concept of ‘intention legitimising’ is further elaborated by focusing on three sub research questions. The characteristics of ‘intention legitimising’, the role of the Chinese *siying qiyejia* and organisational *guanxi* on intention legitimising are intensively discussed. A concise and integrated grounded theory of ‘intention legitimising’ draws an end to this chapter. In the next chapter, I will integrate this emergent grounded theory in extant literature.

## Chapter 7

# THE EMERGENT GROUNDED THEORY WITHIN EXTANT LITERATURE

### 7.1 Introduction

The aim of this chapter is to integrate the emergent grounded theory of ‘intention legitimising’ in extant strategy formation literature. In the meantime some literature in the area of entrepreneurship has been identified as being highly relevant to the generated grounded theory and therefore introduced where necessary in order to enrich the discussion towards the general research question which has been set in the beginning of this research.

The chapter is arranged around three research questions addressed in previous chapters. It begins to discuss and position the concept of ‘intention legitimising’ in current literature; its connotation is further enriched and clarified. The discussion then turns to explore the characteristics of strategy formation in CPEs. Meanwhile in comparison with current strategy formation literature some conclusions are also drawn to highlight similarities and differences between the Chinese and Western companies (see Section 2.3). Furthermore the relationship between Chinese *siying qiyejia* and strategy formation is intensively discussed. According to entrepreneurship literature it is also found that Chinese *siying qiyejia* share similar strategy formation behavioural characteristics

to Western entrepreneurs. Therefore relevant literature in the area of entrepreneurship is introduced so as to enhance our understanding towards strategy formation behaviours of Chinese *siying qiyejia*. In the pursuit of gaining the further insights towards strategy formation in CPEs, the final section of this chapter is committed to delineate the relationship between organisational *guanxi* and strategy formation. *Guanxi* is a phenomenon peculiar to the Chinese context. It has been found that in this particular Chinese Private Enterprise *zhengzhi guanxi* (political networks) plays a significant role for legitimising personal intentions of the Chinese *siying qiyejia*. Therefore this part of discussion mainly falls in current Chinese *guanxi* literature (see Section 2.4).

## 7.2 The Concept of ‘Intention Legitimising’

Two concepts of ‘intention’ and ‘legitimising’ need to be clarified before the discussion of ‘intention legitimising’ begins. With reference to intention, it is not a new phenomenon in the literature of strategic management because strategy inherently embraces intended and emergent elements (Mintzberg and Waters, 1985). However intention alone, especially the concept of ‘personal intentions’ which are highlighted in this study, seldom attracts attention in the current strategy literature. If strategy contains the intentional element, it will be important to understand the contents and antecedents of intentions also their relevant impact on strategic formation behaviours. This study has provided an exploratory case towards the concept of intention and has also put this concept in the context of strategic management.

Despite little interest going to research the personal intention in the area of strategic management, this concept has been debated in the literature of psychology (Fishbein and Ajzen, 1975; Meiland, 1970). In their elaborate study, ‘intention’ is defined as ‘a person’s location on a subjective probability dimension involving a relation between himself and some action’ (Fishbein and Ajzen, 1975, p. 288). In other words, the intention is inherently behaviour orientated and therefore is termed as ‘behaviour intention’ which refers to ‘a person’s location on a subjective probability that he will perform some behaviour’ (Fishbein and Ajzen, 1975, p. 288). Some other scholars define the intention as ‘a state of mind directing a person’s attention (and therefore experience and action) towards a specific object (goal) or a path in order to achieve

something (means)' (Bird, 1988, p. 442). It has also been found that scholars frequently equalise the concept of the intention with many other mental entities such as attitudes and beliefs. For instance, Bird (1988) proposes that personal intentions comprise of personal needs, values, wants, habits and beliefs. Fishbein (1975) has proposed a more elaborate theoretical framework to explain the differences and the relationships between beliefs, attitudes, intentions and behaviours. Based on his model, behaviours are determined by the person's intention to perform that behaviour; intentions are functions of personal attitudes and beliefs (Fishbein and Ajzen, 1975). Here the attitudes refer to 'the amount of affect for or against some object' (Fishbein and Ajzen, 1975, p. 11). Beliefs, also called cognition, represents 'person's information, knowledge, opinions and thoughts about the object' (Fishbein and Ajzen, 1975, p. 11).

The connotation of intention in this study is more consistent with 'behavioural intention' which is suggested by Fishbein (1975). This is supported by the fact that the Chinese *siying qiyejia* has constantly sought opportunities to realise his personal intentions to diversify into vehicle manufacturing industries. Despite the fact that this study has explained that corporate strategies are a direct reflection of the personal intentions of the Chinese *siying qiyejia*, we still need to further understand how personal intentions are developed into corporate strategies. The concept of 'legitimising' is an answer towards this question.

Legitimacy is a concept which has been employed and discussed in varied theoretical contexts (Pettigrew, 1985; Suchman, 1995; Weber, 1966). Weber (1966, p.124) proposes the concept of 'legitimate order' and contends that 'action, especially social action which involves social relationships, many be oriented by the actors to a belief in the existence of a 'legitimate order''. According to Weber (1966), legitimacy of an order originates from the following ways:

'(a) by tradition; a belief in the legitimacy of what has always existed; (b) by virtue of affectual attitudes, especially emotional, legitimising the validity of what is newly revealed or a model to imitate; (c) by virtue of a rational belief in its absolute value...(d) because it has been established in a manner which is recognised to be legal.' (Weber, 1966, p.130)

Following his work, legitimacy has appeared in diversified theoretical contexts. Legitimacy is a central concept in institutional theory, as Deephouse (1996, p. 1024)

contends that ‘a fundamental consequence of institutional isomorphism, according to institutional theory, is organisational legitimacy, the acceptance of an organisation by its external environment.’ Suchman (1995, p. 574) suggests that ‘legitimacy is a generalised perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions’.

Furthermore Pettigrew (1985) has addressed the concept of ‘legitimacy’ in the context of strategy process:

‘The real problem of strategic change is anchoring new concepts of reality, new issues for attention, new ideas for debate and resolution, and mobilising concern, energy and enthusiasm often in an additive and evolutionary fashion to ensure these early illegitimate thoughts gain powerful support and eventually result in contextually appropriate action.’ (Pettigrew, 1985, p. 439)

Here researchers seem to associate ‘legitimacy’ with multiple terms such as desirable, proper, appropriate, valid, legal etc. In this particular Chinese context, ‘intention legitimising’ has been identified as a process of making ‘personal intentions’ of the ‘Chinese *siying qiyejia*’ appear proper or justified for the purpose of initiating corporate actions. In this sense Pettigrew’s explanation (1985) provides a more suitable theoretical context for this study; ‘intention legitimising’ is explained and understood under the context of strategy process. However this does not suggest that ‘intention legitimising’ can be explained from Pettigrew’s political-cultural perspective of strategy formation (see Section 2.3.1.2). Instead under the Chinese private context ‘intention legitimising’ has its own characteristics, causes and effects which will be discussed in the following sections.

### **7.3 The Characteristics of Strategy Formation in Chinese Private Enterprises**

This study has identified some distinguished characteristics of strategy formation in a Chinese private context. Generally, strategy formation in this particular Chinese Pri-

vate Enterprise has exhibited a strong feature of ‘intention legitimising’, which enables personal intentions of the Chinese *siying qiyejia* to become legitimate corporate strategies. This section will detail discussions relating to particular process characteristics, including rationality, politics, participation and duration, which have been addressed in Section 2.3.1.

### 7.3.1 Rationality

Even though the explicit purpose of strategy formation is to expand the corporate business, multiple objectives do exist among organisational members and have been used to evaluate what are the right things to do. The Chinese *siying qiyejia* has a strong motivation to accomplish his personal intentions and his subordinates also tend to meet these personal intentions. These objectives are by no means less important than that of corporate growth. Therefore the goal of profit maximisation suggested by the rational model is not complete under this Chinese private context (Allison, 1969; Andrews, 1971; Ansoff, 1965; Porter, 1980, 1985). Porter (1996) documents that to secure a political position in governments can be an objective of organisational members in CSEs. This study suggests that legitimising personal intentions of Chinese *siying qiyejia* from both the side of Chinese *siying qiyejia* and subordinates is an important goal to guide strategy formation in the Chinese private context. In addition, the means to achieve these goals in this Chinese private context are not rational when judged on traditional rational models (Allison, 1969). It is evidenced that few strategic analytical tools can be found during strategy formation and the heuristics are frequently used to simplify complicated situations. Before the strategic principle is made, no single strategic solution has been generated or properly evaluated to support this strategic principle. Tan (2001) also confirms that mainland Chinese *siying qiyejia* tend to make decisions without the support of comprehensive information and solutions. Disparately CSEs use complicated procedures and tools to formulate their strategies (Brown and Easterby-Smith, 1995). Therefore from both aspects of goals and means regarding the strategy formation, ‘intention legitimising’ does not fit the classical rational models (Allison, 1969; Andrews, 1971; Ansoff, 1965).

Disjointed incremental model and garbage can model propose strong anarchy during strategy formation (Cohen et al., 1972; Lindblom, 1959). They are also seldom true in

this Chinese Private Enterprise due to the fact that the Chinese *siying qiyejia* acted as a strong coherent force and set up principles to guide corporate directions.

'Intention legitimising' is more consistent with logical incremental model (Quinn, 1978). Quinn (1978, p.21) contends that leaders tend to 'proceed flexibly and experimentally from broad concepts to specific commitments, making the latter concrete as late as possible in order to narrow the bands of uncertainty and to benefit from the best available information'. This study has documented a roughly similar picture that strategies are evolved from an abstract principle to more clarified and detailed strategic solutions over a period of two years. Even though the final realised strategy has reflected the initial intention of creating the commercial vehicle business, the final strategic solutions are emergent rather than being preset at the early beginning. In other words, 'intention legitimising' contains both emergent and deliberate nature: 'deliberate in its broad lines and sense of direction, emergent in its details so that these can be adapted en route' (Mintzberg et al., 1998, p. 125).

Therefore this study strongly suggests that rationality, which is exposed by many classic rational models, is not always the main theme for strategy formation in the Chinese private context (Andrews, 1971; Ansoff, 1965; Porter, 1987). Instead, the strategy formation in this Chinese private enterprise is boundedly rational with more emphasis on legitimising personal intentions of the Chinese *siying qiyejia*.

### **7.3.2 Politics**

The politics suggested in this study show variances in comparison with the political models illustrated in Western literature (Eisenhardt and Bourgeois, 1988; Narayanan and Fahey, 1982; Pettigrew, 1973; Pfeffer, 1981). These variances are reflected in two aspects.

The first aspect is that corporate politics are mainly situated at an external level, focusing on interaction between organisations and governments, local governments in particular. Understanding and capitalising on government policies have significant impacts on strategy formation. It has been evidenced from the prevalence and importance of corporate political networks with local governments. This type of corporate politics is peculiar to the Chinese political system and political ideology under which governments hold enormous resources to influence private enterprises; private enterprises

need the protection of governments to gain legitimacy from the environment and to obtain sufficient resources for their growth. In this respect, internal politics among organisational members become less significant compared to the external politics between private enterprises and governments.

The second variance lies in internal politics. Despite the existence of plural interests among different subordinates in this case, overt political activities, such as forming alliances and controlling agenda, were seldom observed among those subordinates (Narayanan and Fahey, 1982; Pettigrew, 1973; Pfeffer, 1981). Any overt politics among them would be treated as being inefficient and were therefore seriously disregarded by the head of private organisations, the Chinese *siying qiyejia*. Instead organisational members directed most of their political energy towards the Chinese *siying qiyejia* in order to expand their personal interests. This phenomenon is termed as '*duiren* behaviours'. The path of politics in this case is more reflected on the relationship between the Chinese *siying qiyejia* and his organisational members rather than the relationships among different corporate departments. This path can be explained by the single owner-controlled governance structure, under which the Chinese *siying qiyejia* is a fundamental force who decides personal interests of corporate members.

In addition the shape of the internal politics under centralised structural contexts, is also different from those findings in Western literature, such as coopting key decision makers, organising outlaw staff meetings etc (Eisenhardt and Bourgeois, 1988). Rather than coopting key decision makers, organisational members in the Chinese Private Enterprise chose to understand and satisfy these key decision makers, such as the Chinese *siying qiyejia* in order to secure or gain personal interests. This is evidenced from the prevalent existence of *duiren* behaviours. Therefore this study suggests a diversified path and shape of internal politics between the Chinese and the Western context.

When comparing the findings with Western literature (Eisenhardt and Bourgeois, 1988), it has been found that those differences in the path and shape of internal politics can not be solely explained from the structural perspective. For instance under centralised structural contexts organisational members in Western companies tend to coopt key decision makers to solve conflicts; whereas this study suggests that those in CPEs adopt an approach of satisfying the personal intentions of the Chinese *siying qiyejia* to achieve coherence. Chinese Culture and Chinese *siying qiyejia* might provide underlying reasons accounting for these differences. It has been repetitively observed that

respecting authority and hierarchy, valuing harmony and *guanxi* are typical characteristics of Chinese culture (Child, 1994; Hofstede, 2001; Littrell, 2002; Porter, 1996; Redding, 1996). *Duiren* behaviours could easily grow on this cultural background. For instance, a similar phenomenon, 'satisfy the boss', has been identified under the Chinese cultural system (Gamble and Gibson, 1999, p. 228). In addition, Chinese *siying qiyejia* can implicitly facilitate or encourage the generation of internal politics such as *duiren* behaviours. For instance the Chinese *siying qiyejia* held strong enforceability on strategy formation and implicitly utilised his personal trust as a standard for judging promotions of managers etc. As a consequence those organisational members were encouraged to adopt *duiren* behaviours to enhance their personal interests inside the company.

### 7.3.3 Participation

This study has depicted a strong picture of the paramount influence of a heroic figure, the Chinese *siying qiyejia*, on strategy formation. This characteristic is aligned with the traditional view that strategy formation is the province of top hierarchical levels (Andrews, 1971; Ansoff, 1965). However from Western literature, it seems that current Western organisations have shifted the responsibility of strategy formation from a single leader to boards or top management teams due to increasing complexity of organisations and environments (Hambrick and Mason, 1984; Iaquinto and Fredrickson, 1997; Knight et al., 1999; McNulty and Pettigrew, 1999; West and Schwenk, 1996). This particular case suggests a different story despite the fact that it has grown into a large sized private enterprise operating in five unrelated business areas. Key rights, including strategy formation and important staffing, are still tightly controlled by the leader, the Chinese *siying qiyejia*. This difference could be explained by the Chinese culture of familism (Fukuyama, 1995; Hofstede, 2001; Littrell, 2002; Redding, 1996). Some studies have documented that Chinese private businesses keep key decision rights in family circles due to the strong Chinese value of familism (Redding, 1996; Tsang, 2002). This study confirms that the family plays an active role in the organisation. For instance Fumin is actually owned by Mr Fu's family and Mr Fu's son is a rising star inside Fumin. Nevertheless the managerial team still had certain rights to suggest or decide details of strategic solutions, which came at the later stage of strategy

formation. Therefore this study contends that Chinese *siying qiyejia*, mostly the head of family, guide the general direction of organisations; while some scope, relating to details, are left to corporate managerial teams.

Some studies differentiate strategy formation into 'induced' and 'autonomous' (Burgelman, 1983a), or 'inductive' and 'deductive' (Regner, 2003) modes based on the origination of strategic initiatives. 'Autonomous' or 'inductive' modes generally suggest that strategic initiatives are formed from the bottom levels and are out of the current strategic territory, featured as being creative and exploratory. 'Induced' or 'deductive' modes imply more controlled and planned characteristics from the top level mostly within the current strategic territory. This study has shown variance compared with these findings and suggests, that in this particular Chinese private context, the Chinese *siying qiyejia* is a primary origin of creative strategic ideas. It is evidenced that Mr Fu constantly explored new business areas for corporate growth. This study does not suggest that strategies from the top will mainly focus on the current strategic domain and will be less exploratory and creative.

Another dramatic difference compared with the West is interference of organisational *guanxi* on strategy formation, especially *zhengzhi guanxi*. It has been evidenced that local governments exerted enormous influence by providing project support, strategic ideas, information, resources etc. By cultivating strong political networks, this Chinese Private Enterprise ensured local governments acted on its benefits. The Bradford studies (Hickson et al., 1986, 2001) have concluded in the British context that 'government influence is surprisingly weak' in both the public and private sector (Hickson et al., 1986, p. 67). However in this particular Chinese private context, government influence was enormously strong. Nevertheless strong interference of governments does not suggest that they will determine corporate strategies for CPEs, instead their significance for strategy formation is that they can facilitate or constrain strategy formation by executing their regulatory powers. For instance personal intentions of the Chinese *siying qiyejia* would be difficult to legitimise if local governments did not give support to Fumin.

In addition, very few scholars have researched interactive styles among participants (Hickson et al., 1986). 'Intention legitimising' has presented a combined utilisation of formal and informal interaction among participants, with informality as the major type. This has been reflected in both the conceptualising and justifying stages during

the strategy formation. This type of communicative style has allowed great flexibility in cultivating or manipulating strategic ideas and gives the Chinese *siying qiyejia* great freedom to legitimise his own personal intentions.

### 7.3.4 Duration

According to Hickson et al. (1986) strategies are made on average in around one year among their 150 cases in the British context. However those investment strategies which require a large amount of money will generally take a longer time, even up to four years (Hickson et al., 1986). Therefore the speed of the strategy formation in this case is slower than that of British organisations when comparing with the average speed of strategy formation in the British context. However speed is difficult to evaluate if considering the factor of the complexity of strategies themselves. Furthermore, one distinguishing feature relating to speed in this study lies in the finding that strategy formation is not evenly paced, with the first stage of conceptualising faster than the second stage of justifying. It is evidenced that this Chinese Private Enterprise only took several months, or as described by some interviewees 'immediate', to reach a key strategic principle. However justifying this strategic principle took around one and a half years after constant corporate experimentations. This suggests that speeding up some stages does not necessarily guarantee a fast pace of strategy formation as a whole.

Some studies contend that obtaining little information and limited analysis will lead to fast strategy formation (Mintzberg, 1973; Nutt, 1976). This case does not support this argument. Despite the prevalence of heuristics the organisation has to use experimentation to assure themselves of the properness of final strategic solutions. That is to say less comprehensiveness does not necessarily lead to fast pace strategy formation. In addition some studies find that strategy formation appears faster in centralised and informal organisations (Wally and Baum, 1994). This study shows inconsistency with this finding as well. Eisenhardt (1989) explains that the centralised structure will not necessarily accelerate strategy formation if decision makers can not obtain confidence about their decisions. In this particular Chinese enterprise even though the Chinese *siying qiyejia* has enormous confidence in his decisions, the organisational members have shown little confidence due to their limited knowledge in the new business. This

lack of confidence, derived from little information and limited analysis, can account for the resultant slow pace of strategy formation. This is particularly obvious during the justifying stage of the strategy formation.

## **7.4 Chinese *Siying Qiyejia* and ‘Intention Legitimising’**

### **7.4.1 Determinants of ‘intention legitimising’**

Even though a huge body of Western studies have debated the choice between the environmental determinism and the strategic choice perspective, this issue has not been fully debated and clearly understood in the Chinese transitional economic context. From the current Chinese literature, it could easily be misinterpreted that institutional environment plays a deterministic role on strategy formation, as White (2001) observes:

‘...research in this area (firm strategy and market structure) has looked nearly exclusively to institutions, institutional processes and social structure for explanations of managerial choice.’ (White, 2001, p. 121)

This trend is evidenced that among the limited studies that explore strategy formation in the Chinese context, the institutional environment has been regarded as a dominant factor for explanations of strategy formation process (Child and Yuan, 1996; Tan, 2001). Chinese politics and culture comprise two popular themes (Porter, 1996, etc). Some studies have strongly criticised that the emphasis on the institutional perspective will downplay the importance of the organisational capabilities in strategy formation, especially when institutional impact is gradually decreasing in contemporary China (White, 2000, 2001). A more integrated approach which combines environmental and organisational factors should be adopted to explain strategic formation behaviour under the current transitional economic backgrounds in China (White, 2000, 2001).

As a response to the call for a more integrated approach (White, 2000, 2001), this study has depicted a clear picture of aggregate effects of multilevel conditions comprising the institutional, organisational and individual levels on strategy formation. The complex

interrelationship between these multilevel conditions has been unfolded. These multilevel conditions have partly provided answers to the question of why the strategy formation in this Chinese Private Enterprise has shown the distinguished characteristic of 'intention legitimising'. From the individual level the personal intentions of the Chinese *siying qiyejia* is an underlying causal condition for initiating the diversification strategy. From the organisational level, strong organisational *guanxi* capability has served as a major mechanism to transform external resources into internal capabilities so as to create the feasibility for 'intention legitimising'. Moreover a single owner-controlled governance structure can create an amicable structural context for the Chinese *siying qiyejia* to enforce his personal intentions. In addition under this structural arrangement managers have higher tendency to satisfy these personal intentions in order to secure their personal interests. From the institutional level, strategic reorganisation of the state sector has provided a favourable environment for CPEs to diversify into new businesses. As a consequence, 'intention legitimising' is the result of complex multilevel factors. Based on these findings, this study proposes that simply emphasising the institutional factor in strategy formation will risk losing the real picture of strategy formation in CPEs. A more integrated approach has to be taken in order to gain a holistic and deep understanding towards the complexity of strategy formation in CPEs.

Although it has been found in this study that strategy formation is an aggregate consequence of multilevel factors, this study tries to step a little further to identify the key determinant factor by examining complex interrelationships between conditions, actions/interactions and consequences in a Chinese private context. Even though this study suggests that the regulatory environment exerts an impact on 'intention legitimising', this influence is not determining compared with the function of the Chinese *siying qiyejia*. This study has clearly indicated the determinant effect of the Chinese *siying qiyejia* on strategy formation. By controlling two major mechanisms, including organisational *guanxi* and governance structure, the Chinese *siying qiyejia* can maneuver the external environment, so as to successfully legitimise his personal intentions into corporate strategies. The resource dependence perspective (Pfeffer and Salancik, 1978) argues that if the environment controls key resources which are critical to the survival of organisations, then enterprise managers have little choice but to accord with the preferences expressed by the environment. Based on this theoret-

ical perspective, it should be assumed that mainland Chinese *siying qiyejia* will have few choices because main social resources are controlled by governments and CSEs. However this study suggests a rather different picture that the Chinese *siying qiyejia* has created strong organisational *guanxi* to enhance corporate capabilities of resources independence, which gives them freedom to make strategies at their own will.

This study supports that the strategic choice perspective, developed on free market economies, is also meaningful and applicable in the Chinese private sector (Child, 1972). Although the CPEs are exposed under a strong institutional environment the Chinese *siying qiyejia* still have great autonomy to make and implement their own strategic choices, even their personal intentions can be legitimised into corporate strategies.

#### **7.4.2 Chinese *siying qiyejia* as entrepreneurs**

In current Chinese literature there have been many studies that associate Chinese Private Enterprises with Chinese entrepreneurs (Holt, 1997; Tan, 1996, 2002a; Zhou and Burns, 2000). In this particular study interviewees labelled their leader as the '*siying qiyejia*', which directly translates to 'private entrepreneur' according to A Chinese-English Dictionary (Wei, 2001, p.775). Given the fact that the connotation of 'entrepreneur' is extremely disputed under current entrepreneurship literature, one important question raised is about whether or not Chinese *siying qiyejia* can be called 'entrepreneurs' as frequently implied by some literature (Holt, 1997; Tan, 1996, 2002a; Zhou and Burns, 2000). This question is particularly meaningful to deepen our understanding towards the role of Chinese *siying qiyejia* on strategy formation in the Chinese private context.

For decades researchers in entrepreneurship have failed to solve the fundamental question about the connotation of entrepreneurs. So far a large amount of effort has gone to explore the differences between entrepreneurs and the general population from the perspective of personality (McClelland, 1961; Stewart Jr et al., 1999). Nevertheless the results are inconclusive and it seems impossible to produce a holistic unified personality list to identify entrepreneurs (Busenitz and Barney, 1997; Low and Macmillan, 1988). This study has shown a similar confusion when defining 'entrepreneurs' from the personality perspective: some interviewees defined '*qiyejia*' as being 'risk taking';

while some denied this interpretation and regarded '*qiyejia*' as being 'extremely cautious'. The recent studies have seen a tendency to define entrepreneurs by investigating their behavioural patterns (Busenitz and Barney, 1997; Stevenson and Jarillo, 1990). Influenced by this trend there has been an increasing interest in their strategy formation behaviours so as to differentiate entrepreneurs from the general population (Busenitz and Barney, 1997; Dess et al., 1997; Kisfalvi, 2002; Lumpkin and Dess, 1996; Stevenson and Jarillo, 1990).

Mintzberg (1973) articulates several characteristics of strategy formation of entrepreneurs. Entrepreneurs tend to focus on opportunities while ignoring their current resources and problems in their corporations; they are unwilling to be confined by formal bureaucracy and power is centralised in their hands in order to commit organisations to bold actions; strategies tend to be dramatic leaps forward in the face of uncertainty; growth is the dominant goal of entrepreneurs (Mintzberg, 1973). These conclusions have also been observed by other studies. Hitt et al. (2001) even suggest that identifying and bringing opportunities into strategy formation is a distinguished feature of entrepreneurs. In addition Lumpkin and Dess (1996) suggest that entrepreneurs will show strong features of autonomy, innovativeness, risk taking, proactiveness and competitiveness during strategy making.

It is also argued that entrepreneurs tend to devote little time to formal planning (Bhide, 1994). Instead, they utilise vision or a general idea to lead their companies; while leaving details to be unfolded gradually so as to better adapt to the changing environment (Mintzberg et al., 1998). Some empirical studies are conducted to find out how the vision is shaped (Mintzberg and Waters, 1982; Westley and Mintzberg, 1989). The visionary process, like a drama, begins with repetition ('rehearsal'), followed by representation ('performance') and finally supported by assistance ('attendance') of audience (Westley and Mintzberg, 1989). Thus, great wisdom of vision is stemmed from the entrepreneur's intimate knowledge of the business (Mintzberg and Waters, 1982); the intimate knowledge is derived from endless experience or experimentation in a particular context (Mintzberg et al., 1998).

This study identifies a great similarity in strategy formation behaviours between Western entrepreneurs and Chinese *siying qiyejia*. It has been seen that Mr Fu, a Chinese *siying qiyejia*, put great emphasis on grasping external opportunities without considering the support of internal capabilities; his growth intention is unlimited; power is centralised

in his hands to boost bold decisions. As a consequence, the resultant diversification strategy is a dramatic leap from the current strategy domain. In addition the Chinese *siying qiyejia* devotes little time to formal planning, instead he utilised one abstract principle to lead the company and left the details to his managerial team. Furthermore as explained by interviewees the Chinese *siying qiyejia* is essentially intuitive and experiential. All these characteristics of the Chinese *siying qiyejia* have been detailed in the previous chapters. To sum up, this Chinese *siying qiyejia* has presented great similarities to Western entrepreneurs. Therefore this study suggests that Mr Fu, a Chinese *siying qiyejia* can be called 'entrepreneur' from a behavioural perspective based on comparison of his strategy formation behaviours with current entrepreneurship literature. Similar characteristics have been confirmed in other CPEs. Tan (1996, 2001) contends that opportunity orientation and innovation are typical characteristics of strategy formation behaviours of CPEs. Therefore, despite the differences of their situated cultural and social contexts, 'entrepreneurs' might be a universal concept from a strategy formation behavioural perspective. This study provides an exploratory case for supporting this argument. In the following content I use Chinese *siying qiyejia* and Chinese private entrepreneurs interchangeably.

### **7.4.3 Personal intentions of Chinese private entrepreneurs**

Some scholars have traced the antecedents of personal intentions (Bird, 1988). Bird (1988, p. 444) has proposed a framework towards the context of intentionality. He (1988) suggests that intentionality is rooted in personal background and also in social, political and economic environments. The personal background gives intentions intuitive nature, whereas the societal context provides a rational dimension to intentions (Bird, 1988). This study supplies an empirical case suggesting that personal intentions originate from personal backgrounds.

In the West it has been a long tradition to research entrepreneurs' backgrounds that may be possible indicators for their behaviour (Collins and Moore, 1970). The general picture shows that the majority of entrepreneurs have come from humble families or experienced a period of disruption that has driven them to make the decision of setting up a business of their own (Collins and Moore, 1970). Kisfalvi (2002, p.490) further explores the connection between entrepreneurs' 'life issues', which refer to

'the thorny issues that are the legacies of difficult life experiences' and their strategic formation behaviours. Kisfalvi (2002) argues that entrepreneur's 'life issues' shaped from his or her past will predominate in the selection of strategic issues during strategy formation. Entrepreneurs will tend to give higher priority and energy to strategic issues that are emotionally significant to their lives (Kisfalvi, 2002). This study has provided similar findings to this work; personal intentions of the Chinese private entrepreneur, underlying causal reasons to initiate the strategy formation, are rooted in his past hard life experiences.

However, Kisfalvi's work (2002) does not provide details about how entrepreneurs bring their life issues into strategy formation and how their life issues become realised corporate strategies. As he concludes in his study the linkage between entrepreneurs' backgrounds and strategy formation are still rare and unclear (Kisfalvi, 2002). This study, by carefully tracing the personal history of the Chinese private entrepreneur over a long period of time, supplies an explanation about the relationship between personal backgrounds and strategy formation. This study suggests that the personal intentions of the Chinese private entrepreneur link their personal difficult experiences with strategy formation. That is to suggest that without the generation of personal intentions personal past hard experiences could hardly impact strategy formation. This relationship has been empirically examined and detailed in Section 5.3.4. In addition the emergent grounded theory of 'intention legitimising' in this study supplies a further systematic explanation of the legitimising process of personal intentions.

Furthermore this study has identified a strong emotional nature of personal intentions. For instance Mr Fu was emotionally attached to vehicle products for nearly 40 years. This emotion has greatly strengthened his belief in personal intentions and further facilitated 'intention legitimising'. In the current strategy literature, the role of emotion on strategy formation is a rarely explored area even though there is a growing interest in integrating this factor into current strategy formation research (Daniels, 1998, 1999, 2003; Koppius, 2003; Simon, 1987). It has been found that negative emotions, such as anxiety and anger, will influence strategists' perceptions towards the environment (Daniels, 1998). For instance strategists, who have negative emotions, perceive the industrial environment as more complex and competitive, and organisational performances are generally poorer (Daniels, 1998). Daniels (1999) also extends his theoretical findings into the role of positive emotion and speculates that positive emotion may

have an obverse impact as well. This study confirms this speculation and proposes that positive emotions of the Chinese private entrepreneur is associated with optimised perceptions towards industrial environment. For instance Mr Fu perceived the commercial vehicle manufacturing industry as a rising but simple industry with low technology and financial inputs. Therefore Mr Fu had enormous confidence in succeeding in this new business and perceived this diversification strategy risk free.

Some scholars have found that emotion will deteriorate strategy formation (Koppius, 2003). Emotional attachment can arouse conflict among strategists, decrease the quality of strategies and weaken corporate commitment to strategic actions (Koppius, 2003). It has also been speculated that positive emotion such as enthusiasm will lead to a dramatic, radical and speedy strategic change, whether appropriate or not (Daniels, 1999). This case has confirmed part of this proposition that positive emotion is associated with dramatic and radical strategic change, but not with speed of strategic change. With a strong emotional intention in mind, the Chinese private entrepreneur has a great determination to realise his personal intentions so as to satisfy his emotional needs, which could not be satisfied in his past. Therefore with such a personal determination, organisations would be easily motivated to carry on dramatic strategic changes which are out of their current strategic domains. The function of emotion on strategy formation could be beneficial or detrimental under the great uncertainty of the environment. If a strategic change is clearly needed the emotion will facilitate this change, however the emotion might take organisations to improper directions as well. This study has witnessed that the emotional attachment to the vehicle manufacturing industry has aroused implicit conflicts among managers (Koppius, 2003). However this study does not confirm the emotion will necessarily decrease the quality of strategies or weaken corporate commitment (Koppius, 2003). A more clarified evaluation about the function of emotion needs a much longer period of observation which is beyond the time limit of this PhD. This study has nevertheless exposed the importance of the concept of emotion which is largely neglected in current strategy literature; this study also draws attention to the emotional factor, which will potentially further enrich our understanding towards the complexity of strategy formation in the real world.

#### **7.4.4 Heuristics and ‘intention legitimising’**

It has been found that the Chinese private entrepreneur has employed extensive heuristics to legitimise his personal intentions. It is after the 1980s that the cognitive theory becomes widely used because cognition of strategists determines strategic issue formulation and other aspects of strategy formation (Dutton et al., 1983; Schwenk, 1984, 1988). The issues regarding cognitive heuristics and cognitive mapping have greatly contributed to the understanding of strategic thinking (Huff, 1990; Miller and Toulouse, 1986; Schwenk, 1984, 1988; Simon, 1987). These studies suggest that strategy formation happens in the mind of strategists with information flowing through their distorting filters; strategies emerge as cognitive maps, schema or as subjective construction towards environment (Huff, 1990; Miller and Toulouse, 1986; Schwenk, 1984, 1988; Simon, 1987).

The most widely researched area is cognitive heuristics (Schwenk, 1984, 1988; Tversky and Kahneman, 1974). Heuristics refer to those decision rules or cognitive mechanisms that ‘reduce the complex tasks of assessing probabilities and predicting values to simpler judgmental operations’ (Tversky and Kahneman, 1974, p.1124). Similarly Busenitz and Barney (1997, p.12) define heuristics as those ‘simplifying strategies that individuals use to make decisions, especially in uncertain and complex conditions’. Three classical heuristics are identified by Tversky and Kahneman (1974) including representativeness, availability, adjustment and anchoring. Representativeness refers to ‘the tendency to overgeneralise from a few characteristics or observation’ (Busenitz and Barney, 1997, p. 10). Availability means that people tend to rely on easily available information to make judgements. In addition strategists also tend to make judgements based on an initial assessment as anchor but fail to make sufficient adjustments at the later stage (Tversky and Kahneman, 1974). Following their work, a large amount of heuristics have been found (Gilovich et al., 2002; Schwenk, 1984; Slovic et al., 2002). For instance Schwenk (1984) identifies 11 heuristics comprising of prior hypothesis, illusions of control etc.

Given the nature of the complexity of strategies, some studies suggest that cognitive heuristics are an ever-present ingredient of strategy formation (Das and Teng, 1999; Dutton et al., 1983; Schwenk, 1984, 1988). In addition it has also been found that entrepreneurs will utilise more heuristics than managers during strategy formation be-

cause entrepreneurs are facing a more complex and uncertain environment without sufficient resources to support their decisions (Busenitz and Barney, 1997). In their study, two heuristics comprising overconfidence referring 'overestimating the probability of being right', and representativeness are highlighted (Busenitz and Barney, 1997, p.10). In this study there exists strong evidence of the prevalence of heuristics during the strategy formation process. The Chinese private entrepreneur utilise multiple heuristics including '*painaodai*', 'simplification', 'imagination', 'low risk perception' etc. to simplify situations so as to assist him in making judgements. Another interesting finding about heuristics of the Chinese entrepreneur, derived from this study, is their contagious feature inside organisations. Especially in the Chinese private context under the single owner-controlled governance structure, employees also tend to use heuristics, for instance 'supportive information collection' and even 'gambling', to legitimise the personal intentions of the Chinese entrepreneur.

Some studies argue that heuristics are quite useful, but sometimes they lead to severe and systematic errors (Busenitz and Barney, 1997; Tversky and Kahneman, 1974). Stevenson and Gumpert (1985) suggest that overconfidence of entrepreneurs will play a functional role and increase decision speed so as to better catch external opportunities. However, this study argues heuristics are not necessarily connected with fast decision pace, which has been proposed by some studies (Stevenson and Gumpert, 1985). Heuristics can facilitate the speed of some stages during strategy formation, for instance the conceptualising stage. However, when getting to the details of strategic solutions, which require serious resource commitment, the organisation has engaged in a long-term experimenting process so as to make sure the previous heuristics are not drastically wrong. It has been evidenced that strategy formation in this study have lasted for approximately two years, which is slower than the average speed of British companies (Hickson et al., 1986). In addition this study implies that the heuristics facilitated strategic change whether appropriate or not. Therefore it could assume that heuristics might be effective, if strategic change is clearly needed, whereas hindrance to the change is huge. Too much formal analysis would potentially hinder organisations to expand to unknown but prospective areas.

## 7.5 Organisational *Guanxi* and 'Intention Legitimising'

### 7.5.1 Organisational *guanxi*

Most Chinese studies have observed *guanxi* from the individual level (Boisot and Child, 1996; Mei-hui Yang, 1994; Wank, 1995; Xin and Pearce, 1996). Some studies propose that *guanxi* can lie at both individual and organisational levels and argue that when personal *guanxi* are dedicated to organisational use, *guanxi* will become a kind of organisational asset (Park and Luo, 2001). However they fail to provide evidence of how individual *guanxi* is transferred to organisational levels. This study has observed both levels of *guanxi* with organisational *guanxi* as a major focus. The findings suggest that these two levels of *guanxi* are mutually independent. In the Chinese Private Enterprise, the organisational *guanxi* is inseparable from individual *guanxi*, with personal *guanxi* of the Chinese entrepreneur as a core. Furthermore the Chinese entrepreneur plays a central role to facilitate the transference of individual *guanxi* inside the company to organisational use. For instance the Chinese entrepreneur recruited a wide range of politicians and bankers in order to accumulate his social capital; by building a strong emotional bond with his subordinates, his internal networks generated a high quality of external networks.

In Western entrepreneurship literature, some studies argue that entrepreneurs are 'embedded in networks of continuing social relations' within which 'entrepreneurship is facilitated or constrained by linkages between aspiring entrepreneurs, resources and opportunities' (Aldrich and Zimmer, 1986, pp. 6-7). In addition, networks in entrepreneurial firms are characterised as being interpersonal, flexible and informal (Johannisson, 2000). This type of network has distinguished differences from inter-organisational network that aims to build a stable and enduring organisational relationship capable of taking collective action (Zhao and Aram, 1995). In this aspect this study shows similarity to Western entrepreneurial firms that organisational *guanxi* are essentially interpersonal in the Chinese private context (Johannisson, 2000).

The study also suggests that trust and favours are two main mechanisms for *guanxi* cultivation. As Wank (1999) has suggested, Chinese *guanxi* contains both an emotional and instrumental nature. However, this varies from the findings which propose mutual trust as a basic coordination mechanism for relationship development in West-

ern entrepreneurial firms (Hoang and Antoncic, 2003). It is possibly because in the West favours might be linked with corruption while in China appropriate favours are socially acceptable.

Social networks have been commonly recognised as an efficient media through which actors gain access to a variety of resources held by other actors in Western entrepreneurial companies (Hoang and Antoncic, 2003). The resources include not only tangible capital, such as human and financial capital, but also intangible which comprise emotional support, information and advice (Hoang and Antoncic, 2003). This study supports this finding by exposing a large amount of benefits derived from organisational *guanxi* under a Chinese entrepreneurial setting.

However even though many researchers have observed the phenomenon of *guanxi* in China, few empirical studies have explored the role of *guanxi* in the context of strategy formation. This study has built a linkage between organisational *guanxi* and strategy formation and argues that organisational *guanxi* serves as a major means for 'intention legitimising'. This will be further discussed in the next section.

### **7.5.2 Zhengzhi guanxi and 'intention legitimising'**

The most distinguished characteristic of organisational *guanxi* in this Chinese Private Enterprise lies in its political nature, with *zhengzhi guanxi* as a major scope. In current Chinese literature, it is not a new phenomenon since some studies have found that this type of *guanxi* exists in CPEs and have termed it as patron-client relationship or local corporatism (Liu, 1992; Wank, 1995, 1996). Liu (1992) has a detailed description of how local officials in *Wenzhou* areas protect the development of local private firms. Wank (1995, 1996) has drawn a similar conclusion in *Xiamen* areas. This study has provided a very strong supportive case taking place in Southwestern China. By combining their work which has been conducted in the Eastern coastal provinces (Liu, 1992; Wank, 1995, 1996), it may be concluded that building strong *zhengzhi guanxi* with governments is an isomorphic phenomenon in CPEs, despite variation in locations. In China, the development of Private Enterprises differs dramatically in areas (Tsang, 1994; Wang, 1998). The Private Enterprises in coastal provinces<sup>1</sup> contribute

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<sup>1</sup>'Coastal provinces' refer to *Hebei, Liaoning, Jiangsu, Zhejiang, Fujian, Shandong, Guangdong and Hainan* and the three cities of *Beijing, Tianjin and Shanghai* directly under the central government (Tsang, 1994, p. 454).

up to 65% of total numbers of CPEs in 1997 (Wang, 1998). They are relatively larger sized and are more competitive compared with Private Enterprises in inland provinces<sup>2</sup>. It seems that variance in CPEs generated by locations does not necessarily create dramatic *zhengzhi guanxi* variance.

*Guanxi* in China has been mainly explained as a cultural consequence of Confucian ideology (Park and Luo, 2001; Zhao and Aram, 1995). However this study argues that *zhengzhi guanxi* is more a consequence of the current Chinese economic, political and legal system under the transitional stage rather than the consequence of the Chinese cultural system. It is evidenced that at the transitional stage a large quantity of state assets are released into society and controlled by local governments. Additionally under present political system, local governments hold enormous power to influence CPEs. Lack of a sound legal system, which government regulation should rely on, enables local governments to enjoy great autonomy to act under their own discretion. This led to local governments utilising their power in a flexible manner and therefore causing great uncertainty to CPEs. Building *guanxi* with governments, especially local governments, emerged as the best way to counterbalance this uncertainty and also obtain resources from the external environment. Similar explanations have been given in other studies (Liu, 1992; Wank, 1995, 1996). For instance Wank (1995, 1996) has vividly termed *guanxi* with local governments as patron-client relationship.

*Zhengzhi guanxi* is an essential concept for explaining the relationship between organisational *guanxi* and strategy formation. As evidenced in this case, strong *zhengzhi guanxi* brought the organisation a broad range of benefits including strategic information, ideas, networks, project support, tariff or fees deduction, resources etc., which in turn facilitated the process of 'intention legitimising'. In particular under the current transitional stage, with a large amount of CSEs being released into society, capitalising on *zhengzhi guanxi* can bring enormous resources into organisations and significantly change internal resource capabilities. The restructuring of internal resources creates feasibility for 'intention legitimising'. Therefore this study has presented an exploratory case to explain how organisational *guanxi*, especially *zhengzhi guanxi* influence strategy formation in the Chinese private context.

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<sup>2</sup>'Inland provinces' refer to the rest of the 19 provinces situated inland (Tsang, 1994, p.454).

To sum up, this research suggests that organisational *guanxi* acts as a major means for ‘intention legitimising’. Even though many studies have observed the significant role of *guanxi* in the Chinese economy and corporate activities (Boisot and Child, 1996; Brown and Qi, 2001; Law et al., 2000; Luo, 2003; Peng and Heath, 1996; Xin and Pearce, 1996), few studies have detailed the relationship between organisational *guanxi* and strategy formation. This study has supplied an initial answer and has further deepened our understanding towards this complex relationship.

## 7.6 Summary

Organised around three research questions, this chapter aims to integrate the emergent grounded theory of ‘intention legitimising’ in current literature. Regarding the characteristics of strategy formation in CPEs, discussions are mainly carried out within the theoretical area of strategy formation. Based on this empirical case it has been found that strategy formation becomes ‘intention legitimising’. Similarities and differences in strategy formation between the Chinese and Western context are also discussed when necessary. In terms of the relationship between Chinese *siying qiyejia* and strategy formation, it is concluded that the Chinese *siying qiyejia* can be called ‘entrepreneur’ when comparing his strategy formation behaviours with Western entrepreneurs. In order to further enhance our understanding of the strategy formation behaviours of Chinese *siying qiyejia*, new theoretical themes, including entrepreneurship relevant to strategy formation, are introduced. Furthermore the relationship between organisational *guanxi* and strategy formation is delineated. Despite the discussions continuing in diversified theoretical areas including strategy formation, entrepreneurship and Chinese *guanxi*, the essential purpose of this chapter is to gain deeper insights into strategy formation in CPEs by comparing the grounded theory of ‘intention legitimising’ with current literature. The next chapter will draw an end to the whole research by reflecting major contributions of this study to current theories, methodologies and managerial practices. Suggestions for future research are also provided.

# **Chapter 8**

## **SUMMARIES AND CONCLUSIONS**

### **8.1 Introduction**

This chapter draws together the conclusions of the whole research. It begins with a reiteration of the research aim and key findings. This is followed by reflection of theoretical and methodological contributions. Furthermore, managerial implications to both CPEs and Western organisations who have business interests in China are addressed. Suggestions for future research are provided in the end of this chapter.

### **8.2 Reiteration of the Research Aim and Key Findings**

This study aims to gain a deeper understanding of strategy formation in CPEs. This understanding is particularly significant for both CPEs and Western organisations who have business interests in China. Despite the fact that CPEs have grown into a significant market force in the Chinese economic system in the last decade, their failure rate has also reached 40% (Gao, 2001; Tan, 2001; Tsang, 1994). One critical factor for this high failure is attributed to weak managerial capabilities especially in developing corporate strategies (Gao, 2001). Therefore a good understanding of strategy formation in CPEs is required in order to assist CPEs to improve their managerial practices in strategy development. In addition it has been recognised that the lack of understanding towards local Chinese companies has led to poor performance in Western organisations in the current Chinese market. Given the increasing status of CPEs it is also necessary

for Western companies to gain an in-depth knowledge of these potential competitors or partners in order to succeed in the future Chinese market.

Therefore, a general research question was formulated at the beginning of the study to reflect the research aim, it is restated as follows:

How do Chinese Private Enterprises form their strategies?

However the detailed sub-research questions were unknown until the data collection and data analysis commenced. Guided by emergent categories three sub-research questions were generated to enrich the research inquiry. These three sub-research questions are reiterated in the following:

1. What are the characteristics of strategy formation in the Chinese Private Enterprise?
2. How does the Chinese *siying qiyejia* influence strategy formation?
3. What is the relationship between organisational *guanxi* and strategy formation?

This empirical study was carried out in a CPE located in Southwestern China over a period of two years. Since the end of 2001 the company has been actively engaged in a diversification strategy formation into the commercial vehicle manufacturing industry. This has provided a great opportunity for the researcher to observe strategy formation under a real time setting. During these two years, two intensive field visits have been conducted with the researcher staying in the company for totally 13 weeks; 72 face to face in-depth interviews with 33 interviewees have been produced as the primary data source for this research. The data analysis is mainly guided by the coding techniques of grounded theory methodology (Strauss and Corbin, 1990, 1998).

The diversification strategy formation mainly occurred between 2002 and 2003. This strategy formation originated deeply from the personal history of Mr Fu, a Chinese *siying qiyejia*. His hard life experience created a life long personal intention of owning his own vehicle manufacturing business. Driven by this strong intention Mr Fu constantly sought opportunities to diversify into this new business. Strategic reorganisation of CSEs has created a favourable environment for Fumin to seek new business opportunities. By cultivating a strong *guanxi* with local governments Fumin successfully merged

with SVGE (a large state-owned vehicle manufacturer). During this strategy formation it was found that subordinates tended to justify Mr Fu's personal intention for the purpose of enhancing their own interests. Mr Fu also utilised his authority, bestowed by current single owner controlled governance structure, to enforce his personal intention into corporate strategy. As a consequence of this strategy formation Mr Fu's personal intention has been realised with the production of approximately 200 coaches in the first half of 2004.

A grounded theory of 'intention legitimising' has been developed to conceptualise the observed diversification strategy formation in this particular Chinese Private Enterprise. Here I restate this key finding as follows:

Under this particular Chinese private context, strategy formation becomes 'intention legitimising'. 'Intention legitimising' refers to a process of making 'personal intentions' of 'Chinese *siying qiyejia*' appear proper or justified in order to result in corporate actions. 'Personal intentions' of the 'Chinese *siying qiyejia*' are causal conditions for 'intention legitimising'. 'Organisational *guanxi*' and 'governance structure' act as two major intervening conditions for 'intention legitimising'. 'Strong organisational *guanxi*' will facilitate, whereas 'weak organisational *guanxi*' will constrain, 'intention legitimising'. In addition, 'single owner controlled governance structure' will facilitate, whereas 'multiple owner controlled governance structure' would constrain, 'intention legitimising'. 'Intention legitimising' is realised via two major actions including 'conceptualising' and 'justifying'. 'Conceptualising' creates a rule which renders legitimacy to 'personal intentions'; 'justifying' further strengthens the legitimacy of 'personal intentions'. Consequently, 'personal intentions' of the 'Chinese *siying qiyejia*' can or cannot be legitimised into the final corporate strategy, conditional upon the factors of 'organisational *guanxi*' and 'governance structure'. During 'intention legitimising', 'Chinese *siying qiyejia*' acts as a determinant role on 'intention legitimising', whilst 'organisational *guanxi*' serves as one major means for 'intention legitimising'.

### 8.3 Theoretical Contributions

Despite the fact that strategy formation in the Western context has been researched and debated for decades, studies of strategy formation in CPEs are described as a ‘handful’ (Tan, 2002a, p. 105). By exploring strategy formation in a Chinese Private Enterprise over a period of two years this study provides initial answers towards this fundamentally new, but significant, topic. This study has identified a grounded theory of ‘intention legitimising’ as the central answer to strategy formation in the Chinese Private Enterprise. Surrounding the central concept of ‘intention legitimising’, its connotation, characteristics and conditions have been extensively explained. These findings and discussions contribute to our current limited knowledge of strategy formation in the Chinese private context.

In addition this study suggests that ‘intention legitimising’ is an aggregate effect of multilevel factors, consisting of environmental, organisational and individual levels with Chinese private entrepreneurs as the determinant factor and organisational *guanxi* as a major means for ‘intention legitimising’. Most current studies have continually focused on institutional impact on strategy formation, without paying enough attention to organisational and individual factors (White, 2001). This study has filled in this gap and investigated the influence of multilevel factors, especially individual and organisational factors, in order to obtain a holistic understanding about strategy formation in the Chinese private context.

Furthermore ‘intention legitimising’ also has significant meanings for strategy formation in the Western context. By extending strategy formation research into the Chinese private context, knowledge about strategy formation is further enhanced via the presentation of an empirical case under a dramatically different national setting. The similarities and differences in strategy formation have been discussed between the Chinese and Western context. Additionally, this study highlights the importance of ‘personal intentions’ on strategy formation, which is rarely explored in Western literature. The research has disclosed that it is the personal intentions that serve as fundamental causal conditions for strategy formation. It has been further found that the personal intentions contain strong emotions, which are rooted in individuals’ past experiences. These emotions strengthen personal intentions and facilitate their legitimisation into corporate strategies. However the role of emotion hardly attracts attention from scholars in

the area of strategy formation, these few studies are exceptions (Daniels, 1998, 1999, 2003; Koppius, 2003). This research has added another exploratory case to explain the role of individual emotions on strategy formation.

This study will potentially contribute to entrepreneurship literature via adding the concept of Chinese *siying qiyejia* into current knowledge. For decades scholars fail to provide an unified answer towards the definition of entrepreneurs. Tan (1996) has suggested that extending the entrepreneurship research into transitional economies may deepen our current understanding in this area. Although the social context is dramatically different, the Chinese *siying qiyejia* share similar behavioural characteristics with the Western entrepreneurs when forming strategies. This implies that defining entrepreneurs from a behavioural perspective might provide an answer to differentiate entrepreneurs from other populations. In addition it has been further argued that even though the current studies have provided insights in understanding strategy formation of entrepreneurs, research on this topic is still very thin (Stevenson and Jarillo, 1990). This study has supplied a Chinese empirical case to enrich the knowledge of strategy formation behaviours of entrepreneurs. Kisfalvi (2002) observes that entrepreneurs tend to prioritise those strategic issues which are emotionally attached to their life issues. However he does not provide further answers towards how those life issues are transformed into strategies. This study highlights the concept of ‘intention legitimising’ to explain the linkage between personal backgrounds and strategy formation.

## **8.4 Reflections on Conducting Grounded Theory**

By conducting a grounded theory study in the Chinese context, I would suggest that grounded theory has great potentials for scholars to gain fresh insights into Chinese management issues without heavily relying on current Western models, applicability of which is particularly questionable (Porter, 1996). This study has found that strategy formation in a Chinese private enterprise became ‘intention legitimising’, which has never been addressed in the Western context. In this respect, a grounded theory approach proved to be useful in assisting scholars to gain more localised knowledge in specific Chinese context.

Despite the advantage in generating new insights and localised knowledge, the grounded theory approach still has much room for improvement. For instance, present methods of grounded theory have not provided enough guidance for conducting analysis in multi cultural settings. Several issues have been addressed regarding the improvement of grounded theory, as a personal reflection of my experience in conducting grounded theory in this study.

### **Coding in multilingual settings**

From the application process, it has been recognised that conducting grounded theory in the Chinese context is not an easy practice, even without considering common difficulties derived from the methodology itself. Grounded theory, involving a high quantity of coding of qualitative notes, requires researchers to have a high standard of linguistic skills. This imposes limitations on most researchers who are not specifically trained in linguistics, in particular on those PhD students who come from non-English speaking countries. Achieving the precise interpretation is inevitably confined to individual abilities in grasping multiple languages. In addition, languages are embedded in specific cultural settings. This leads to possibilities that some terms which originate from one cultural setting cannot find equivalent translation in another cultural setting, for instance, the Chinese *guanxi* in this study. With the spread of grounded theory to a global level, more and more overseas researchers have begun to adopt this approach to guide their research. However, these linguistic challenges addressed above have not yet been given enough attention in current classic grounded theory monographs. This lack of attention and relevant guidance can seriously deteriorate the quality of grounded theory work. In order to effectuate the practice of conducting grounded theory in the Chinese setting, several suggestions have been given to scholars in this study, such as co-coding, conceptual debate, using dictionaries etc. (see Section 3.6 for details). However the lessons which have been learned from this single research is far from complete and satisfying. The study continues to call attention to this issue in order to improve the practice of conducting grounded theory in multi-cultural settings.

### **The three coding procedures**

Strauss's view of grounded theory proposes three stages of coding including open, axial and selective coding (Strauss and Corbin, 1990, 1998). Although these three stages can be clearly understood from the theoretical level, it is very difficult to differentiate them during the application process. The biggest confusion arising in this study relates to the axial coding due to the recognition that open coding and selective coding inherently embrace the axial coding. Therefore distinguishing axial coding as a separate stage seemed to be unnecessary for this research. For instance, at the open coding stage, Strauss's view of grounded theory requires researchers to identify categories with their relevant subcategories, properties and dimensions (Strauss and Corbin, 1998, pp. 101-121). In order to fulfil this task I had to constantly track the relationships between varied codes so as to decide which ones were qualified for becoming categories, subcategories, or properties and also their related logic. Exploring the relationships between concepts is an essential task of axial coding (Strauss and Corbin, 1998, pp. 123-142). In this respect open coding can not exist if it does not embrace the axial coding practices. The selective coding procedure shares a similar problem. The selective coding, aiming to integrate theory, requires exploration of the relationships between categories at a more abstract level. It also can not exist without incorporating the axial coding practices. This study echoes Glaser's view of grounded theory, which differentiates the coding into only two stages – open coding and selective coding. In summary, although the Strauss's version of grounded theory has provided researchers with detailed guidance in conducting the research, the coding procedures need to be further clarified and simplified so as to decrease confusion and make the practice much easier.

### **The paradigms**

In grounded theory, the paradigm is an important tool in assisting the researcher to explore relationships among categories at the theoretical level. Strauss and Corbin (1998) provide an overarching paradigm incorporating four major elements including context, phenomenon, actions/interactions and consequences. This paradigm proved to be extremely helpful to deepen the understanding of the researched phenomenon in this study. By applying this paradigm, this study not only gained knowledge towards

the process of the diversification strategy formation, but also obtained valuable insights into its situated structural and personal conditions, and relevant consequences. Given the importance of the paradigm in guiding the theoretical thinking and analysis, we need to expand paradigms which will further suit diversified research needs. In fact Glaser (1992) has shown his particular concern that focusing on one paradigm will potentially stifle creativity. Instead he proposes 18 diversified coding paradigms for researchers to choose from based on their individual research need and focus (Glaser, 1978). This has to some extent expanded the research horizon and increased flexibility for researchers, who have diversified research agendas. Therefore in this respect, integrating Strauss and Glaser's view of the paradigms will greatly benefit the research society. In addition developing the paradigms could be a proliferate area for future methodological development of grounded theory.

### **Theoretical saturation**

Despite the fact that Strauss and Corbin have provided some guidance about when to cease interviewing and coding, it appeared difficult in this study to identify the exact point at which theoretical saturation had been reached. Based on the statement of Strauss and Corbin (1998, p.143), theoretical saturation refers to 'the point in category development at which no new properties, dimensions or relationships emerge during analysis'. However this guidance is too abstract and lacks practicality. Given the complexity of the phenomena, it is very idealistic and therefore impossible to claim there will be no new properties or dimensions added to the analysis. In addition, from the application process, reaching the theoretical saturation could also be partially influenced by the pragmatic issues such as time and resource limitation. Under these situations, how to ensure reaching a valid theory needs to be taken into consideration. Given the fact that the theoretical saturation is an important issue that will influence the validity of the research, more detailed practical guidance is needed, which could be an interesting area for future research.

### **Calling for an integration between Strauss's and Glaser's approach**

In recent grounded theory research, it seems to have become mandatory for researchers to state their stance whether they adopt Strauss's or Glaser's view of grounded theory.

This puts these two versions of grounded theory into a very contradictory stance while downplaying their essential commonality as a rigorous theory generation methodology. From the application in this study, I would argue that integration between Strauss's and Glaser's approach will be much more beneficial for researchers who are taking the grounded theory approach. Firstly, as Strauss and Corbin (1998) have clearly stated their book is more dedicated to novice researchers who have no previous research experience. Therefore the procedure and techniques they have proposed are more structured and strict so as to better guide new researchers on how to conduct qualitative research. Compared with Strauss's version, Glaser's approach is relatively simplified and flexible, which particularly attracts attention of experienced researchers. These two versions could complement each other so as to meet the needs of a much wider research audience. Secondly, as I have discussed above, each version has much to learn from the other. For instance, a wide range of paradigms suggested by Glaser would be a useful complement to Strauss's view. Despite the fact that this study has clearly stated that it adopted the Strauss's view of grounded theory, some suggestions and ideas from Glaser were also particularly inspiring and helpful in generating valuable insights into the strategy formation in the Chinese private enterprise. In this respect the techniques suggested by the two versions can complement each other so as to enhance the grounded theory practices. Therefore this study calls for an integration between these two views of grounded theory. Future theoretical development could focus on how to integrate these two approaches, e.g. under what conditions and which particular view or techniques would be most suitable.

## **8.5 Implications for Managerial Practices**

### **8.5.1 Suggestions for Chinese Private Enterprises**

It is understandable that in CPEs corporate strategies will reflect personal intentions of Chinese private entrepreneurs. However not all personal intentions can be aligned with environmental demands and organisational capabilities. Consequently personal intentions will possibly result in uncertainty of corporate lives. On one hand it has been seen that 'intention legitimising' facilitated strategic change in this particular Chinese case; diversifying into the commercial vehicle manufacturing industry was beyond the

imagination of many organisational members. If this strategy is successful in the future the organisation will benefit from this new business regarding corporate growth, enlarging boundaries etc. However on the other hand the failure of this strategy will be extremely detrimental to the whole organisation due to huge commitment of resources to the implementation of personal intentions. Therefore, I would argue that 'intention legitimising' can become a double-edged sword, and sometimes could be potentially detrimental. This could partly explain why CPEs experienced both high growth and high failure rate, which has been highlighted at the beginning of this research. However, this argument does not suggest that 'intention legitimising' should be completely denied. Instead CPEs should pay attention to manage this phenomenon so as to effectuate their strategy development capabilities. The following content in this section will provide suggestions to those CPEs, who show similar characteristics to this case, about how to manage 'intention legitimising'.

### **Transforming governance structure**

The single owner-controlled governance structure has facilitated 'intention legitimising'. This structural arrangement is convenient for Chinese private entrepreneurs to accomplish their personal intentions. However it also weakens strategy development capabilities at the organisational level. Its drawbacks are reflected in several aspects. Firstly the responsibility for developing strategies is tightly confined to individual level, Chinese private entrepreneurs. This could be potentially dangerous if Chinese entrepreneurs make inappropriate strategies. Secondly, it has seen the prevalence of *duiren* behaviours of subordinates who intend to satisfy personal needs of Chinese entrepreneurs so as to gain their personal interests. This phenomenon is extremely non contributive to the generation of high quality strategies which require open discussions and debates within organisations. The third drawback lies in the malfunction of organisational structure, senior managers sometimes have been bypassed during strategy formation. In this sense, professionalism, despite having been introduced into the organisation in this case, has been inhibited and therefore does not benefit corporate strategy development practices. Therefore transforming single owner-controlled governance structure is particularly significant to manage the dysfunction of 'intention legitimising'.

Two major points should be considered when carrying out this structural change. Firstly, this transformation requires CPEs to rearrange ownership structure. Introducing new owners, in particular non family owners, into ownership structure will increase the chance that personal intentions of private entrepreneurs will be properly debated by the board. This does not suggest that introducing some new minor owners, holding very limited corporate shares, will accomplish this task. The rearrangement of ownership structure should aim to cultivate a real balanced power structure, under which personal intentions of private entrepreneurs will and have to be properly debated, given the existence of multiple interests among the owners. This empirical case has witnessed the change of ownership structure and the formation of the board. However, this change did not significantly impact strategy development within the organisation due to the lack of a real balanced ownership structure. The requirement for transforming ownership structure could be the most painful thing for Chinese private entrepreneurs to comprehend because of the fear of losing control of their own company. However the structural change in ownership will constrain the dysfunction of 'intention legitimising' and increase the chance of business continuity in CPEs. In addition from the financial perspective introduction of new owners will facilitate the growth of CPEs. It has been seen that in this specific CPE the lack of financial input has become a key obstacle for growth in many of its businesses. In order to gain fast growth and achieve personal ambitions of Chinese private entrepreneurs, bringing in new owners will undoubtedly be necessary. This does not imply that Chinese private entrepreneurs will lose their control of their own companies, but that they have to intentionally weaken their control, to some extent, in order to achieve a great growth of their own companies from a long term run.

Secondly, regarding the administrative issues, professionalism should be better utilised by Chinese private entrepreneurs. Senior managers should be given more responsibilities to participate in much wider strategic issues so as to contribute their professional knowledge to corporations. In this respect, certain organisational procedures are needed, also should be enforced to ensure important strategic issues passing through senior managers for their opinions before any important strategies have been formally made. This will be beneficial for CPEs to comprehend potential risks involved in strategies beforehand rather than being caught in the latter stage.

### **Cultivating initiatives from multiple organisational levels**

'Intention legitimising' has implied that Chinese private entrepreneurs play dominant roles on strategy formation. The initiatives from the top are powerful and valuable for facilitating strategic change when change is needed. However the deficiency is that the dominant influence of Chinese private entrepreneurs on strategy development could lead CPEs to rely heavily on individual entrepreneurs. Strategic thinking capabilities, which are essential for long term growth of companies, cannot be properly nurtured at the organisational level. This case provides a clear example of an extremely ambitious private entrepreneur accompanied by subordinates, who have no intentions of thinking strategically and are used to leaving important strategic issues to the entrepreneur. In this respect human capitals are undermined and their initiatives are not nurtured. Therefore Chinese private entrepreneurs should pay attention to cultivate and incorporate much broader initiatives from multiple organisational levels. However this does not suggest that CPEs should ignore or weaken the creative role of Chinese private entrepreneurs. Instead, CPEs should seek the best way to integrate the initiatives from the top, middle and bottom levels.

For fulfilling this task, most importantly, private entrepreneurs themselves should recognise that strategy formation is not a domain of the top level, instead a wide range of initiatives from varied levels are critical for enhancing creativity and efficiency of strategy development. In addition, CPEs need to cultivate an open cultural atmosphere which allows the existence of initiatives coming from varied levels inside or outside organisations. The culture should also encourage open discussions and debates on strategic issues from varied corporate levels so as to curtail *duiren* behaviours to the minimum. This also requires Chinese private entrepreneurs to adapt their personal styles to a more democratic and open manner which allows the growth of a more communicative and open culture. Furthermore some managerial practices can be introduced to channel the initiatives of organisational members to the top level, such as bringing in representatives of organisational members into executive meetings so as to assist to identify key strategic issues in businesses etc.

### **Enlarging the scope of organisational *guanxi***

In this study organisational *guanxi* has been identified as one major means for 'intention legitimising'; in particular the CPE has focused on weaving political networks with governments in order to secure interests from external environment. However it should be recognised, as I have argued before, the prominence of *zhengzhi guanxi* is peculiar to Chinese economic, political and legal systems under the current transitional stage. With the further enhancement of market and legal systems, it could be speculated that local governments will rely more on market mechanisms and laws rather than administrative orders to regulate market activities. Accordingly the resources under the control of local governments have to be distributed on the basis of open and fair competition. It has been evidenced that very recently local governments have to publicly invite tenders from multiple competitors when selling the usufruct of national land. Therefore it could be expected that obtaining external opportunities will be relying less on corporate political networks under a more mature market setting. However this does not imply that CPEs should pay less attention to cultivating relationships with governments given the fact that Chinese governments are, and will still be, important players in the future Chinese economic system. Instead I would rather suggest that CPEs should enlarge their *guanxi* scope and cultivate a much wider and balanced networks rather than simply focusing on political networks. In particular CPEs should put more emphasis to cultivate *guanxi* with players in focal industrial areas such as their suppliers, customers, competitors etc. to gain complementary assets and skills in order to succeed in the future Chinese market.

Relating to this particular CPE, it has seen the practise of institutionalising *guanxi* inside the organisation. Specific employees have been appointed to look after relationships with local governments, and the private entrepreneur and senior managers all implicitly shared the responsibility for cultivating organisational *guanxi*. In addition many managers and internal consultants, to some extent, have official backgrounds which enabled them to have deeper insights into Chinese governments and their politics. All these practises can also be beneficial and can be utilised in other CPEs.

However, one of the most challenging issues for CPEs in the future will be how to strengthen a much wider range of organisational *guanxi*, particularly business partners in focal industrial areas. It has been seen that in this case organisational members

frustrated when negotiating with state owned companies and joint ventures located outside *Sichuan* province. Apart from the reason of local protectionism, many skills are lacking including negotiation, communication, team building, project management skills etc, which are highly regarded in the Western organisations. This requires CPEs to develop new capabilities to enlarge and cultivate organisational *guanxi*. Currently the company employs very typical Chinese ways including building personal trust and giving favours to enhance the emotional bond and satisfy pragmatical concerns with other institutions. However rooted in the similar cultural background, these capabilities could be easily imitated by other Chinese organisations. Therefore I would argue that the CPEs who can integrate multiple skills including building trust, giving favours, negotiation, communication, team building, project management etc. will harvest a more successful organisational *guanxi*. To accumulate such diversified skills CPEs need to strengthen their recruitment and training practises so as to ensure that the employees they recruited have right sets of skills and they will be properly trained to suit the requirements to achieve a successful *guanxi* with other institutions.

### **Adopting a balanced approach to develop corporate strategies**

This research has overseen that corporate strategy formation is heavily reliant on heuristics. Although heuristics can be useful under certain circumstances, for instance in this case heuristics have encouraged creativity, imagination and also have facilitated strategic change, they can be detrimental if wrong judgements are made to guide corporate actions. Therefore CPEs should develop a more balanced approach of strategy formation which can compromise both heuristics and rational reasoning. Hart and Banbury (1994) also verify that organisations employing multiple approaches during strategy formation will outperform those who only utilise one; they further argue that the competitive advantage in current turbulent environment comes from capabilities of integrating and managing multiple processual approaches.

Regarding this particular case, this CPE should pay more attention to analytical side of strategy formation. For fulfilling this purpose the CPE firstly needs to develop a strong intelligence system in order to comprehend the fast changing environment and provide strong support for corporate strategy development. Specific departments, e.g. the corporate planning department, should be assigned to incorporate the responsibil-

ity of building and maintaining an intelligence system. Relevant IT systems should also be introduced to facilitate sharing and accumulation of useful information. Furthermore, a wide range of strategic analytical tools, which have been developed from current managerial practices, should be employed to strengthen analytical capabilities of organisational members. Accordingly a strong strategy development department is needed in order to enhance the analytical side of strategy formation. This department should take a broad range of responsibilities consisting of channeling information, introducing and revising analytical tools, training relevant business departments, supporting top management levels on strategic issues etc.

## **8.5.2 Suggestions for Western companies**

### **Understanding Chinese private entrepreneurs**

Given the fact that Western companies will face more direct cooperation or competition from the Chinese private sector, gaining a deep understanding towards strategy development in this particular sector is a necessity for success in the future Chinese market. One important lesson from this research is that Chinese private entrepreneurs play dominant roles on strategy formation, which has shown distinguished characteristics of 'intention legitimising'. In order to comprehend managerial practices of CPEs it is extremely important for Western organisations to gain a deep knowledge about Chinese private entrepreneurs themselves. It is possibly deviating from traditional Western thinking that strategy formation is attributed to the top management team. Disparately in CPEs there would be a great chance to see a heroic entrepreneur rather than a managerial team who really determines corporate directions. This understanding has multiple advantages for Western organisations. Firstly when considering CPEs as potential partners, this understanding will assist the selection process. Personal backgrounds, skills, values of Chinese private entrepreneurs are best indicators for explaining diversified corporate issues in CPEs, including their history, cultures etc. This understanding could assist Western organisations to evaluate whether or not complementary assets or skills and synergy can be achieved between the two sides. Secondly, as discussed in this study, knowing the personal intentions of Chinese private entrepreneurs might provide an accurate way for Western organisations to predict corporate strategies of CPEs.

This study has implied that these personal intentions have antecedents, and has provided an empirical case about how personal history influenced personal intentions and further impacted corporate strategies. Therefore tracing personal history of Chinese private entrepreneurs, especially their hard life experiences, could be useful for understanding their personal intentions. Moreover this study has suggested that the Chinese private entrepreneur holds personal trust as a core value. This finding is also consistent with other studies (Wong, 1996). This implies that trust, possibly more than any other managerial capabilities, could be a major determinant factor on success when collaborating with CPEs. Trust contains strong emotional feature in the Chinese context. This study has discovered many practices such as '*jiang renqing*' (considering human feelings), 'respecting individuals', 'keeping your promise', 'being honest and sincere', 'showing considerations', 'being loyal' etc. Utilisation of these practices might lay good foundations for Western organisations to successfully cooperate with CPEs.

### **Cultivating organisational *guanxi***

*Guanxi* is a peculiar Chinese phenomenon rooted in Chinese historical and cultural backgrounds. This study has revealed that *guanxi* can be committed for organisational use and become a corporate capability which will enhance organisational competitive advantages. Furthermore it has also been learned that organisational *guanxi*, particular *zhengzhi guanxi*, exerts strong influence on strategy formation in CPEs. These findings bear critical implications for Western organisations to enhance their performance in China. I would argue that organisational *guanxi* is significant to not only CPEs but also to Western organisations who have businesses in China. If CPEs have paid great attention to enhancing organisational *guanxi*, Western organisations, as outsiders, should be more concerned with *guanxi* practice in China, not less.

The most difficult and confusing things for Western organisations to comprehend lie in the differences between Chinese *guanxi* and Western understanding towards social networks. These differences have been reflected from multiple aspects consisting of *guanxi* scope, *guanxi* cultivation etc. One distinguishing difference lies in organisational *guanxi* containing a strong political element, which can be hardly comprehended by Western organisations, who are used to operating in the Western context under which corporate relationship with governments is not particularly significant on strat-

egy development. However under specific Chinese historical, political and economic backgrounds, Chinese governments have significant impacts on various corporate activities. The heavy interference of Chinese government makes cultivating *guanxi* with government a necessity, and most Western organisations have realised its importance. However this has still aroused a great deal of frustration in Western organisations when building up government *guanxi*. For instance it feels like they are carrying out charitable activities for Chinese governments, such as advising governments, wining and dining with government officials, etc., which are not directly beneficial for Western organisations. Some Western organisations even retreated from the Chinese market due to the bureaucracy and cost (Qiu, 1999; The Financial Times, 2004). I would suggest that Western organisations should focus more on the positive side of government relationships and further deepen the potential benefits of political *guanxi* on companies. Apart from gaining varied licenses and permissions from Chinese governments, one potential benefit, largely ignored by Western organisations, is the deep insights into the Chinese government and its political orientation on future Chinese economic reform. These deep insights will potentially benefit Western organisations to strategically arrange their businesses in China, regarding the issues of entry, investment, location, speed etc. It has witnessed in this case that the Chinese entrepreneur has shown great insights into Chinese economic reform and has successfully capitalised on the opportunities during the transitional stage.

In addition, the approaches of cultivating quality organisational *guanxi* have specific Chinese characteristics; some practices for instance cultivating personal trust, considering human feelings (*jiang renqing*) etc., are typical ways rooted in Chinese culture and traditional customs. Therefore it would be important for Western organisations to comprehend and appreciate these practices so as to enhance their *guanxi* with multiple Chinese partners. This does not imply that Western organisations should abandon their original good skills in negotiation, communication, team building, project management etc. Instead, as I have argued before, I would propose a similar suggestion that Western organisations, who can integrate Chinese and Western skills including building trust, giving favours, negotiation, communication, team building, project management etc., will harvest a more successful organisational *guanxi*. In order to achieve this aim personnel management, such as recruitment and training, is particularly important for Western organisations to obtain the right people, knowledge and skills suitable for the

Chinese market. For instance, regarding the recruitment practice, bilingual personnels could be more qualified in cultivating *guanxi* with Chinese governments and companies because they have advantages to understand and bridge these two cultures.

## 8.6 Suggestions for Future Research

Although this study has researched a Chinese private enterprise over a period of two years and some initial findings have been generated to improve our current knowledge towards strategy formation in CPEs, caution should be taken when applying these findings and conclusions to other CPEs. It is mainly attributed to two reasons: firstly, as has been explained in the methodological chapter, this study intends to achieve a deep understanding towards the phenomenon researched and never intends to generalise in a quantitative statistical sense. Therefore the applicability of the findings and conclusions in this study should be carefully examined, their applicability could only be valid if other CPEs show similar context and conditions to this study in strategy development. Secondly, the emergent grounded theory of ‘intention legitimising’ based on a single longitudinal research only provides an initial explanation to strategy formation in CPEs, its validity and generalisability require more empirical support. Therefore the future research can regard the emergent grounded theory of ‘intention legitimising’ as hypothesis or propositions and test them to a much broader range of CPEs. Longitudinal case studies are also valuable to refine this emergent grounded theory of ‘intention legitimising’.

Even though this study intends to obtain a deeper and holistic understanding towards strategy formation in CPEs, some phenomena are not intensively observed because they are beyond the time line of this PhD research, particularly the performance of this diversification strategy. This has caused difficulties in evaluating the effectiveness of strategy formation. Therefore the resultant findings have focused more on causes and actions of strategy formation, its effectiveness is not fully discussed due to lack of evidence. This calls for a much longer commitment for data collection. In addition the future research can potentially focus on the effectiveness of ‘intention legitimising’ in CPEs so as to enrich the findings and conclusions generated from this study.

Furthermore, following on previous studies (White, 2001), this research continues to call for a multilevel approach to research strategy formation in CPEs. Given the finding about the determinant role of Chinese private entrepreneurs on strategy formation it is extremely surprising that extant literature has largely ignored these central actors while putting major explanations on macro Chinese political and cultural environment. This study does not deny the importance of institutional environment especially in current transitional stage, however a more balanced approach incorporating Chinese private entrepreneurs is urgently needed in order to obtain valid knowledge about strategy formation in CPEs.

This study has supplied an exploratory explanation about the role of Chinese private entrepreneurs on strategy formation. However the progress provided by this study is very modest. Our understanding towards Chinese private entrepreneurs, a growing Chinese social class, is far less satisfying in current literature. Regarding strategy formation, this case suggests that we need to know more about their personal intentions, related causes and effects on strategy formation. Hard personal life experience has been identified as one important indicator to explain the origin of personal intentions. However the explanation is not complete and the antecedents of personal intentions can be extremely complicated and accounted from personal background as well as their situated social and economic environments. The personal intentions of Chinese private entrepreneurs forms a profitable area for future research.

Moreover this study has identified that personal emotion exerts substantial influence on strategy formation. Chinese private entrepreneurs tend to realise those personal intentions which are emotionally significant to their lives. However as mentioned before emotion seldom attracts attention from scholars in strategy formation area, except several limited studies (Daniels, 1998, 1999, 2003; Koppius, 2003). This has aroused one significant question about the importance of emotion on strategy formation. Therefore this study suggests that much attention should be given to personal emotions in order to obtain a clarified answer about this particular issue.

# **Appendix A**

## **Open Coding: An Example**

The following table shows an example of how the open coding was conducted, from raw interview notes to open codes (concept, category, subcategory, property and dimension), in the open coding stage. A commercial spreadsheet package was found to be convenient for holding and sorting these codes. For the finalised codes, please see detailed explanations in Chapter 5.

Interview No.	Line No.	Concept	Category	Subcategory	Property	Dimension
FL 44	13-18	Political networks	Organisational Guanxi	Sources	Consultant's guanxi	Political
FL 49	108-109	Status in corporate guanxi	Organisational Guanxi	Sources	Qiyedia's guanxi	Core
FL 17, 23, 26, 47	170-172; 118-119; 68-70; 99-101	Political networks	Organisational Guanxi	Sources	Qiyedia's guanxi	Political
FL 43	34-37	Strength of political guanxi	Organisational Guanxi	Sources	Qiyedia's guanxi	Strong
FL 47	99-101	Social resources	Organisational Guanxi	Sources	Qiyedia's guanxi	
FL 23	65	Recruitment	Organisational Guanxi	Sources	Guanxi transference	
FL 17	175-176	Trust	Organisational Guanxi	Sources	Guanxi transference	Emotional
FL 37, 48, 49	32-39; 26-27; 97-100	Individual guanxi capability	Organisational Guanxi	Sources	Managers' guanxi	Peripheral, individual
FL 49	83-95	Official backgrounds	Organisational Guanxi	Sources	Managers' guanxi	Political
FL 46	1-11	Personal skills	Organisational Guanxi	Sources	Managers' guanxi	Strong
FL 37	4-5	Political networks	Organisational Guanxi	Sources	Managers' guanxi	Political
FL 48	50-53	Degree of strength	Organisational Guanxi	Scope	Bank guanxi	Strong, local
FL 23	11-12, 16-18	Local banks	Organisational Guanxi	Scope	Bank guanxi	Local
FL 35, 48	21-24, 33-37	Mutual reliance	Organisational Guanxi	Scope	Bank guanxi	Mutual
FL 48, 66	84-88; 156	Trustworthiness	Organisational Guanxi	Scope	Business guanxi	
FL 48, 53, 66	84-88; 1-5; 156	Degree of strength	Organisational Guanxi	Scope	Business guanxi	Weak
FL 49	111-117	Central government	Organisational Guanxi	Scope	Political guanxi	Weak, central level
FL 43	6-17	Corporate size	Organisational Guanxi	Scope	Political guanxi	
FL 43	6-17	Degree of strength	Organisational Guanxi	Scope	Political guanxi	Strong-weak
FL 10, 23, 47, 61	13-15, 24-26; 11-12, 16- 18; 44-52; 138-147	Local governments	Organisational Guanxi	Scope	Political guanxi	Strong, local level
FL 43, 44	48-57; 1-11, 34-39	Mutual benefits	Organisational Guanxi	Scope	Political guanxi	Mutual
FL 47	101-102	Capital accumulation	Organisational Guanxi	Guanxi cultivation	Favour	
FL 33	111-113	Giving favours	Organisational Guanxi	Guanxi cultivation	Favour	Pragmatic
FL 60	90-97	Foundation of guanxi	Organisational Guanxi	Guanxi cultivation	Trust	
FL 59	30-32	Communication	Organisational Guanxi	Guanxi cultivation	Trust	
FL 14, 48, 59	38-49; 79-81; 33-34	Honest/sincere	Organisational Guanxi	Guanxi cultivation	Trust	Emotional

# Appendix B

## A Glossary of Chinese Terminology

**Bainian enterprise:** *bainian* means centennial; here refers to organisations which can survive for more than one hundred years

**Biranxing:** inevitability

**Chengdu:** the provincial capital of *Sichuan* province (see Appendix D: Map of China)

**Chongqing:** name of a province (see Appendix D: Map of China)

**Da, Zhong, Xiao:** *da* literally means ‘big’, *zhong* means ‘middle’, *xiao* means ‘small’. Here these three words refer to three strategic solutions which Mr Fu designed to develop his commercial vehicle manufacturing businesses

**Deng Xiaoping:** China’s paramount leader from 1978 to 1987; General Secretary of Central Committee of the Communist Party of China from 1982-1987

**Dongtiao Policy:** The land policy of the *Chengdu* government for original eastern suburb in *Chengdu*. After years of development, the eastern suburb has become city centre, and is not suitable for industrial development. Therefore, the *Chengdu* government, in pursuit of encouraging the industrial companies located in the eastern suburb moving out of the city center, provides privileged land policy for those which intend to move in the future. Varied discount rates are supplied depending upon the speed of moving.

**Duiren:** being responsible for individuals and making them satisfied; in this case the individual refers to Mr Fu

**Duishi:** being responsible for tasks and getting them done properly

**Goudui:** exchanging material interests

**Guanli jiushi jiandan:** management means simplicity

**Guanxi:** connections; relations

**Guotui minjin:** literally means ‘the state sector retreats; the private sector steps forward’. It forms one central policy of the CPC for reforming CSEs.

**Honglianshe:** a previous public transportation organisation in *Mianyang*, where Mr Fu worked for several years

**Jiang Zemin:** General Secretary of Central Committee of the Communist Party of China from 1989-2002

**Jiang renqing:** considering human feelings

**Jiaoqing:** friendship; friendly relations

**La guanxi:** pull social relationships

**Longquan industrial area:** an economic and technological development zone in *Chengdu*

**Mianyang:** city name, the empirical site is located in this city (see Appendix D: Map of China)

**Minying qiye:** literally referring to enterprises that are managed by people. By using the term ‘*minying qiye*’, organisations can avoid being associated with the term ‘private’

**O’ranxing:** fortuity, chance

**Painaodai:** following feelings and intuitions when making decisions

**Qingjie:** emotional attachment to something

**Qingke and songli:** throwing banquets and giving gifts

**Renqing:** human feelings

**Shenzhen:** name of the city which is located in *Guangdong* province (see Appendix D: Map of China)

**Shexiang:** imagination

**Shishi qiushi:** seeking the truth from facts

***Sichuan:*** name of a province which is located in the Southwestern China (see Appendix D: Map of China)

***Siying qiye:*** private enterprises

***Siying qiyejia:*** private entrepreneurs. '*Siying*' means private owned; while '*qiyejia*' is translated as 'entrepreneur' according to 'A Chinese-English Dictionary' (2001, p. 775). Based on '*Xinhua Dictionary*' (a Chinese dictionary), '*qiyejia*' refer to 'those organisational owners or managers who can seize opportunities to introduce new products and technologies, improve organisational structures, and seek maximum profit and long term development for organisations. Innovation is the most important capability of *qiyejia*' (The Commercial Press, 2003, p.773).

***Suandazhang:*** calculating things in a general way rather than focusing on details

***Waida zhengzhao:*** score lucky hits

***Wenzhou:*** name of the city which is located in *Zhejiang* province (see Appendix D: Map of China)

***Xiamen:*** name of the city which is located in *Fujian* province (see Appendix D: Map of China)

***Yema:*** the brand name of the original commercial vehicle product from SVGE

***Yongxiangqian:*** literally means 'moving forward forever'; here refers to one engine-driven tricycle which was created by Mr Fu during his working time in *honglianshe*

***Yuanze:*** principles

***Zhengzhi guanxi:*** political networks

***Zhuada fangxiao:*** literally means that the government should focus on large CSEs while adopt a flexible policy towards small and medium ones. It forms one central policy of the CPC for reforming CSEs.

***Ziben yunzuo:*** capital operation

***Zouhoumen:*** going through the back door

# Appendix C

## A Glossary of Grounded Theory Terminology

The following terminology, arranged in alphabetical order, are adapted from Strauss and Corbin (1998).

**Analytic tools:** Devices and techniques used by analysts to facilitate the coding process (p. 87)

**Axial coding:** The process of relating categories to their subcategories, termed 'axial' because coding occurs around the axis of a category, linking categories at the level of properties and dimensions (p. 123)

**Categories:** Concepts that stand for phenomena (p. 101)

**Central category:** sometimes called the core category, represents the main theme of the research. Although the central category evolves from the research, it too is an abstraction. In an exaggerated sense, it consists of all the products of analysis condensed into a few words that seem to explain what 'the research is all about' (p. 146).

**Code notes:** Memos containing the actual products of the three types of coding: open, axial, and selective (p. 217)

**Coding:** The analytic processes through which data are fractured, conceptualised, and integrated to form theory (p. 3)

**Concepts:** The building blocks of theory (p. 101)

**Conceptual ordering:** Organizing (and sometimes rating) of data according to a selective and specified set of properties and their dimensions (p. 15)

**Conditional/consequential matrix:** An analytic device to stimulate analysts' thinking about the relationships between macro and micro conditions/consequences both to each other and to process (p. 181)

**Description:** The use of words to convey a mental image of an event, a piece of scenery, a scene, an experience, an emotion, or a sensation; the account related from the perspective of the person doing the depicting (p.15)

**Diagrams:** Visual devices that depict the relationship among concepts (p. 217)

**Dimensions:** The range along which general properties of a category vary, giving specification to a category and variation to the theory (p. 101)

**Macro conditions/consequences:** Those that are broad in scope and possible impact (p. 181)

**Memos:** Written records of analysis that may vary in type and form (p. 217)

**Methodology:** A way of thinking about and studying social reality (p. 3)

**Methods:** A set of procedures and techniques for gathering and analysing data (p. 3)

**Microanalysis:** The detailed line-by-line analysis necessary at the beginning of a study to generate initial categories (with their properties and dimensions) and to suggest relationships among categories; a combination of open and axial coding (p. 57)

**Micro conditions/consequences:** Those that are narrow in scope and possible impact (p. 181)

**Nontechnical literature:** Biographies, diaries, documents, manuscripts, records, reports, catalogs, and other materials that can be used as primary data, to supplement interviews and field observations, or to stimulate thinking about properties and dimensions of concepts emerging from data (p. 35)

**Objectivity:** The ability to achieve a certain degree of distance from the research materials and to represent them fairly; the ability to listen to the words of respondents and to give them a voice independent of that of the researcher (p. 35)

**Open coding:** The analytic process through which concepts are identified and their properties and dimensions are discovered in data (p. 101)

**Operational notes:** Memos containing procedural directions and reminders (p. 217)

**Paths of connectivity:** The complex ways in which macro and micro conditions/consequences intersect to create a context for action/interaction (p.181)

**The paradigm:** An analytic tool devised to help analysts integrate structure with process (p. 123)

**Theoretical saturation:** The point in category development at which no new properties, dimensions, or relationships emerge during analysis (p. 143 )

**Phenomena:** Central ideas in the data represented as concepts (p. 101)

**Process:** Sequences of action/interaction pertaining to a phenomenon as they evolve over time (p. 123)

**Properties:** Characteristics of a category, the delineation of which defines and gives it meaning (p. 101)

**Range of variability:** The degree to which a concept varies dimensionally along its properties, with variation being built into the theory by sampling for diversity and ranges of properties (pp. 143)

**Research problem:** The general or substantive area of focus for the research (p. 35)

**Research question:** The specific query to be addressed by this research that sets the parameters of the project and suggests the methods to be used for data gathering and analysis (p. 35)

**Selective coding:** The process of integrating and refining the theory (p. 143)

**Sensitivity:** The ability to respond to the subtle nuances of, and cues to, meanings in data (p. 35)

**Structure:** The conditional context in which a category (phenomenon) is situated (p. 123)

**Subcategories:** Concepts that pertain to a category, giving it further clarification and specification (p. 101)

**Technical literature:** Reports of research studies and theoretical or philosophical papers characteristic of professional and disciplinary writing that can serve as background materials against which one compares findings from actual data (p. 35)

**Theoretical comparisons:** An analytic tool used to stimulate thinking about properties and dimensions of categories (p. 73)

**Theoretical notes:** Sensitising and summarising memos that contain an analyst's thoughts and ideas about theoretical sampling and other issues (p. 217)

**Theoretical sampling:** Data gathering driven by concepts derived from the evolving theory and based on the concept of 'making comparisons,' whose purpose is to go to places, people, or events that will maximise opportunities to discover variations among concepts and to densify categories in terms of their properties and dimensions (p. 201)

**Theoretical saturation:** The point in category development at which no new properties, dimensions, or relationships emerge during analysis (p. 143)

**Theory:** A set of well-developed concepts related through statements of relationship, which together constitute an integrated framework that can be used to explain or predict phenomena (p. 15)



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