UNIVERSITÉ DU QUÉBEC

MÉMOIRE PRÉSENTÉ À

UNIVERSITÉ DU QUÉBEC À TROIS-RIVIÈRES

COMME EXIGENCE PARTIELLE

DE LA MAÎTRISE EN ADMINISTRATION DES AFFAIRES

PAR

HUI WANG

THE MANAGEMENT OF SMALL AND MEDIUM-SIZED CHINESE FAMILY-OWNED BUSINESSES: A COMPARATIVE STUDY OF MAINLAND CFOBs AND OVERSEAS CFOBs

AVRIL 2008

RÉSUMÉ

En 1978, la Chine implanta des réformes économiques et créa une politique de porte ouverte. Depuis, le système économique chinois est passé d'une économie centralisée à une économie de marché socialiste à la chinoise. Cette politique a légalisé les entreprise privées sur la Chine continentale et a encouragé les propriétaires de petites et moyennes entreprises privées à contribuer à l'économie socialiste à la chinoise. Avec le développement des 20 dernières années, des millions d'entreprises privées ont été établies en Chine. La plupart d'entres elles sont des entreprises familiales. La croissance spectaculaire de ces entreprises familiales chinoises et le rôle qu'elles ont joué dans la transition vers l'économie de marché socialiste à la chinoise a suscité l'intérêt de plusieurs chercheurs. Mais la connaissance de leur modèle de gestion est encore limitée. La présente recherche vise l'étude des entreprises familiales chinoises qui est axée sur les pratiques de gestion. Le but de cette recherche est d'explorer les caractéristiques de gestion des PME familiales chinoises et d'identifier si elles suivent les mêmes principes que celles qui sont outre-mer et dont on parle dans la littérature.

Une revue littérature sur la gestion des entreprises familiales et des entreprises familiales chinoises outre-mer a été faite dans le but d'établir notre modèle de recherche théorique. Cette recherche porte principalement sur les principaux aspects de la gestion d'entreprise, lesquels sont la propriété, la structure d'organisation, le style de direction, la gestion générale, la gestion de la production, la gestion financière, la gestion de marketing, la gestion des ressources humaines et l'influence de la culture chinoise sur leur style de gestion.

Vu la nature exploratoire de cette recherche, c'est la stratégie d'étude de cas qui a été favorisée. Pour ce faire, nous avons rencontré des propriétaires dirigeants et des cadres provenant de 6 PME familiales chinoises œuvrant dans le secteur manufacturier et ayant leur lieu d'affaires en terre chinoise.

Les résultats montrent, dans l'ensemble, que les PME familiales ayant leur lieu d'affaires en terre chinoise adoptent plusieurs pratiques de gestion traditionnellement associées au PME familiales chinoises outre-mer. Cependant, sept principales différences ont été notées, dont la tendance à vouloir grandir et à professionnaliser certaines pratiques de gestion rejoignant sensiblement ce que nous connaissons des PME canadiennes ou américaines.

ABSTRACT

Mainland China implemented major economic reforms in 1978 and created an open-door policy. Since then, the Chinese economy has shifted from a centrally planned economy to a market-based socialist economy. This policy legalized private small business ownership in mainland China and encouraged private small business owners to supplement the socialist economy. Over the last two decades, millions of private enterprises have been established, and many are family-owned and managed enterprises. Although the extraordinary growth of these Chinese family-owned businesses (CFOBs) and the role that they have played in the transition of China's economy have attracted the interest of many researchers, the knowledge of their management model is still limited. This study examines the management practices of CFOBs in order to explore the management characteristics of CFOBs and to identify whether or not they follow the same principles that have been described in overseas CFOBs in previous literature.

Initially, a literature review was conducted of family businesses and overseas CFOBs management practices in order to establish a theoretical research model. The emphasis of this study is on the main aspects of enterprise management, which are the ownership, organizational structure, leadership style, general management, production management, financial management, marketing management, human resource management and influence of Chinese culture on the management style of CFOBs. Owing to the exploratory and descriptive nature of this study, case studies were used as the research method. Six case studies were conducted with mainland CFOBs. Each enterprise is a small or medium-sized business in the manufacturing sector. A one-hour interview was conducted with at least one manager from each enterprise. A total of ten managers from these six enterprises were interviewed; most are owner-managers of their enterprises. The interviews concentrated on the main aspects of enterprise management as described above.

The results show that, in general, the six mainland CFOBs interviewed adopt a patriarch-based management style, which is similar to that of overseas CFOBs. They follow many of the traditional management practices associated with overseas CFOBs as described in the literature. However, seven major differences were discovered between the management model of the six mainland CFOBs and that of the overseas CFOBs. These differences show that there is a tendency towards introducing professional management practices into the six mainland CFOBs and that managerial innovations have begun to appear. Based on the results of this study, it is suggested that the entrepreneurs of these six enterprises decentralize decision-making and provide more opportunities to outside professional personnel in order to implement professional management practices in their enterprises and to achieve sustainable business development.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ACKNOWLEDGEMENT

I worked on this thesis for one and a half years, and it could not have been finished without the help and support of many people. Here, I would like to express my gratitude to all those who made it possible for me to complete this thesis.

Firstly, I would like to express my deep and sincere appreciation to Prof. Louise Cadieux, my supervisor, for her patience, constant encouragement, understanding and support throughout my studies at UQTR. She introduced me to the field of family business and gave me important guidance throughout this work. Without her creative ideas, invaluable advice, clarity of expression and detailed comments, the completion of the present thesis would not have been possible.

I wish to express my warms and sincere thanks to Mr. Cen, Zhongyu and Mr. Ruan, Zhiwu. Without their important help and support during the process of field study, I would not have been able to complete this thesis. I would also thank all the managers who participated in the present study. Their kind association and collaboration during the case studies process were of great value in this work. Moreover, my special gratitude is due to Madam Susan Glendenning and Mr. Marcus Johnsen, who gave me strong support and assistance in reading and correcting of my research report.

Finally, I own my loving thanks to my parents. They gave me opportunity to study in Canada. Without their profound love, untiring encouragement and unwavering support, it would have been impossible for me to complete this work.

INTRODUCTION

INTRODUCTION

Business management is a universal phenomenon, but the way of doing business is not universal. Some managers prefer an intuitive approach, while others focus on planning. Management is much more than a routine; it has to adapt to the needs of the people concerned and the environment where the business operates. The management of family-owned businesses is a topic that researchers have been interested in for a long time. It has been said that because of the involvement of family in the business, family-owned businesses have many unique characteristics in their management model. However, our knowledge of management in family-owned businesses concentrates on the understanding of western family-owned businesses. The area of Chinese family-owned businesses (CFOBs) is still a new field that lacks empirical research, and as such, the present understanding of management styles in CFOBs is still very limited.

Outside mainland China, CFOBs are the most dominant form of organization in overseas Chinese communities. Given the contribution that CFOBs make to the dynamics of Asian economies, researchers and scholars have paid more attention to this field. Previous research has revealed that the Chinese method of business management is the most distinctive feature of CFOBs (Carney, 1998; Kao, 1993; Redding, 1993). It has been said that Chinese family business strategies and management style have their origins in Chinese culture and philosophy (Redding, 1993; Sheh, 2001), and that these have created distinguishing characteristics in the CFOB management model. However, most of the existing research of the management of CFOBs is related to overseas CFOBs, which are located outside mainland China. We still know little about how mainland CFOBs, especially small and medium-sized CFOBs, have been managed. It is not known if they have a unique management style, or if this style is similar to that of overseas CFOBs.

All family-owned businesses in mainland China were absorbed into the state sector when the People's Republic of China was founded in 1949. Afterwards, no family-owned businesses existed in mainland China until 1978, when China implemented its open-door policy and moved towards a socialist market economy. This policy, which led to the legalization of small business, encourages small-business owners to supplement the socialist economy. Consequently, it has launched an era of rapid expansion of the private sector. Over the last two decades, millions of private enterprises have been established, and these have played a key role in the growth of the Chinese economy. Most private businesses in mainland China are CFOBs; however, due to the relatively hostile political climate towards this organizational form, few enterprises regard themselves as family-owned businesses. Even though the contribution CFOBs have made to Chinese economic development is attracting an increasing amount of attention, its internal management model is rarely understood by outsiders.

The present research attempts to assess the management practices of CFOBs in mainland China using case studies. Ten in-depth interviews were conducted with entrepreneurs from six mainland CFOBs. This study presents the observations gained from these interviews in six sections. The managerial problem and research objectives are discussed in the first section of the introduction. A brief overview of universal family-owned businesses follows in Chapter I, including the definition, unique organizational structure, and management characteristics of universal family-owned businesses. A literature review of overseas CFOB management is presented in Chapter II, which provides us with a management framework of CFOBs from a theoretical perspective. Chapter III discusses the research methodology used in this study. The results from the in-depth interviews are presented in Chapter IV, and a final section summarizes the main findings.

1. The managerial problem

Family-owned business is the oldest form of business organization around the world and it continues to dominate in advanced industrial economies. The majority of establishments are family-owned in both developed and developing economies. These family businesses account for over two-thirds of all businesses (Westhead & Cowling, 1998) and the most conservative estimates on the worldwide percentage of businesses that are family-owned range from 65 to 80 percent (Flören, 2002). For example, family firms comprise 80 percent to 90 percent of all business enterprises in the USA (Astrachan & Shanker, 2003), while 70 percent of all enterprises in Canada are family-owned, generating 50 percent of the GDP and employing 75 to 85 percent of employees (Bérubé, 2005). Most of these family-owned businesses are small and medium-sized businesses. They make a major contribution to wealth creation, job generation, and competitiveness. They have played a significant role in the economic development of various countries.

Chinese family-owned businesses (CFOBs), most of which are located outside mainland China, dominate the economies of Hong Kong, Taiwan, Singapore and most other Southeast Asian countries such as Malaysia, Thailand, Philippines, and others (Kao, 1993). CFOBs account for 92 percent of local enterprises in Singapore, which have a market capitalization of 81 percent (Lee & Tan, 2001; Tsui-Auch, 2004). Ethnic Chinese run 160 of the top 200 of Indonesia's largest businesses, which hold 73 percent of market capitalization (Tsui-Auch, 2004). The CFOBs in Malaysia employ a total of 140,944 workers and account for 40-50 percent of Malaysia's corporate assets (Yeung, 2000b). Ninety percent of all investments in Thailand's commercial and manufacturing sectors and 50 percent of those in the service sector are Chinese-owned (Chen, 1995a; Yeung, 2000b). The Chinese own more than 32 percent of the top manufacturing firms and 43 percent of the top commercial firms in the Philippines (Chen, 1995a). The ethnic Chinese share of market capitalization amounts to 60 percent (Ahlstrom, Young, Chan & Bruton, 2004). These overseas CFOBs constitute a family-oriented network that transcends national boundaries and has gained significant success in the world economy (Kao, 1993). It has been said that the success of the East Asian economies is built upon the overseas CFOBs (Kao, 1993).

In mainland China, family-owned businesses, especial small and medium-sized family-owned businesses, have dominated the private sector since 1978. They have already played an important role in the Chinese national economy even if they have only developed over the past twenty years. As statistics show, small and medium-sized enterprises account for 64.9 percent of all Chinese enterprises, 90 percent of which are family-owned. Today, over ninety percent of the four million private enterprises in mainland China are family-owned businesses (Fu, 2004); they occupy thirty percent of resources but have made a sixty percent contribution to the growth of Chinese GDP. This extraordinary growth of the private sector since 1978 has attracted many researchers interested in family business in mainland China. Many of these attribute the success of China's economic performance to the market reforms that have allowed the revival of private, family-owned business in both city and countryside (Whyte, 1996).

Family-owned business is a particular form of business organization, which is held and managed by family and/or extended family members. Owing to the involvement of family in the business, family-owned business has unique behaviours and characteristics in terms of the organizational structure and management model. However, it shows us more unique characteristics when family businesses are operated by Chinese people. Researchers generally agree that the most distinctive feature of Chinese family-owned business is the style of Chinese business management (Carney, 1998; Kao, 1993; Redding, 1993). Previous research has described a CFOB as a duplication of the structure of the traditional Chinese family (Tsui-Auch，2004). It has been said that the success of overseas CFOBs is based upon relatively simple “personal managed” organizational operations within a network of kin and ethnic relations (Carney, 1998; Kao, 1993; Yu, 2001).

Previous research has revealed that CFOBs tend to adopt a patriarch-based management model, one that is usually regarded as backward and inefficient. As a result, only two percent of mainland CFOBs identified themselves as family-owned businesses (Fu, 2004). Today, most of the family-owned businesses in mainland China are in the initial stage of their development (Poutziouris, Wang & Chan, 2002). The average life cycle of CFOBs is 2.9 years and only 20 percent to 30 percent survive. Is the management model of the CFOBs really backward and inefficient? If it is, why do so many enterprises still adopt this model? How can CFOBs improve their management model in order to help them survive? Facing today’s rapidly changing business environment, should they continue to adopt a patriarch-based management model?

2. The research objective

Family-owned business has been a topic of interest for a long time, but Chinese family-owned business (CFOB) is still a new field where only a few studies have been done. Due to the significant contribution of CFOBs in the dynamics of East Asian economies, scholars and researchers began to pay more attention to CFOBs in the late 1980s. Many investigations and studies have been conducted on the management model of CFOBs (Ahlstrom *et al.,* 2004; Carney, 1998; Chen, 1995a, b; Davies & Ma, 2003; Ding, 2000; Gatfield & Youseff, 2001; Kao 1993; Kirbride & Tang 1992; Lee, 1996; Leung, 1995; Redding 1993; Schlevogt, 2001; Sheh, 2001; Tsang, 2001, 2002; Weidenbaum, 1996a, b; Wong, McReynolds & Wong, 1992; Yeung, 2000a; Yeung & Soh, 2000; Yu, 2001) and researchers generally agree that the most distinctive feature of CFOBs is the style of Chinese business management. However, most of this previous research is about overseas CFOBs. CFOBs in mainland China, especially small and medium-sized CFOBs, are still a new field where there is a lack of published research.

Due to the significance of CFOBs and the absence of published research on mainland CFOBs, the objective of this research is to study the management model of mainland CFOBs and understand whether they follow the same principles that have been described in overseas CFOBs in previous literature. This research focuses on the management perspective and aims to explore the characteristics of their management model in order to identify whether the mainland Chinese entrepreneurs manage their family-owned businesses in a style similar or different to those of overseas Chinese family-owned businesses.

CHAPTER I

THEORETICAL CONTEXT

CHAPTER I

THEORETICAL CONTEXT

Before a theoretical framework of CFOBs management model is established, it is important to first have a general understanding of family-owned business. This chapter is about the theoretical review of family-owned business. A brief literature review follows which discusses how family-owned business differs from other types of business in terms of the definition of family-owned business, the particularity of family-owned business and management within family-owned business.

1.1 The definition of a family-owned business

Defining a family-owned business is a fundamental requirement in the field of studying family-owned business, as any theory must start with the definition (Chrisman, Chua & Sharma, 2003). However, defining a FOB is the first challenge facing academia (Astrachan & Shanker, 2003; Handler, 1989; Shanker & Astrachan, 1996). Owing to a lack of consensus on the criteria used to distinguish family-owned business, definitions of family-owned business abound in previous literature and definitional ambiguities persist (Chua, Chrisman & Sharma, 1999). There is still no consentaneous definition of family-owned business (Astrachan & Shanker, 2003; Westhead & Cowling, 1998).

Researchers began defining family-owned business by the components of a family's involvement in the business, such as ownership, management, and trans-generational succession. They defined several criteria to distinguish family-owned business from non-family business, and they proposed various definitions by combining the criteria shown in Table 1.

Table 1

The criteria used to define family-owned business in general

Criteria	Author(s) **	Content
Family ownership and/or management control	Babicky, 1987; Barnes & Hershon, 1976; Beckhard & Dyer, 1983; Bernard, 1975; Brown & Coverley, 1999; Davis & Harveston, 1998; Donckels & Fröhlich, 1991; Dumas, 1990; Fox et al., 1996; Gallo & Sveen, 1991; Gasson et al. 1988; Handler, 1990; Holland & Oliver, 1992; Hugron, 1992; Hugron & Dumas, 1993; Kets se Vries, 1993; Lansberg, Perrow & Rogolsky, 1988; Leach, et al., 1990; Longenecker & Schoen, 1978; Lyman, 1991; Mérigot & Hirigoyen, 1998; Morris et al., 1997; Peay & Dyer, 1989; Reynolds, 1995; Rosenblatt et al., 1985; Stavrou, 1998; Stern, 1986; Stoy, 1992; Teng Aun et al., 1993; Ward & Aronoff, 1990; Welsch, 1993	• Majority voting of share ownership by family members • Management of business by at least one member from the family group owning the business • A single family group is effectively controlling the firm • All the important and administrative posts are filled by members of the family
Family involvement or the interaction between family and business	Ambrose, 1983; Alcorn, 1982; Barach et al., 1988; Beckhard & Dyer, 1983; Binder Hamlyn, 1994; Carsrud, 1994; Churchill & Hatten, 1987; Clifford et al., 1992; Davis, 1983; Lyman, 1991; Morris et al., 1997; Peiser & Wooten, 1983; Rosenblatt et al., 1985; Poutziouris & Chittenden, 1996;	• Implication of family members in business • The family is one subsystem in the family business system • The family and business are inseparable • The interaction between family and business make family business unique
Inter-generation transition	Ambrose, 1983; Barach et al., 1988; Barnes & Hershon, 1976; Birley, 1986; Cadieux, 2004; Channon, 1971; Chin & Chan, 1998; Churchill & Hatten, 1987; Cunninghan & Ho, 1994; Donnelley, 1964; Dunn, 1999; Fiegener et al., 1996; Fox et al., 1996; Gasson et al. 1988; Handler, 1989; Litz, 1995; Teng Aun et al., 1993; Ward 1987;	• Non market-based transfers of power between family members • An inter-generational ownership transition • An inter-generational management control of the business's operations and strategic direction transition
Family's influence in setting the strategic decision	Carsrud, 1994 ; Davis, 1983; Davis & Tagiuri, 1985; Donnelley, 1964; Dreux, 1990; Dyer, 1986 ; Handler, 1989 ; Holland & Oliver, 1992 ; Pratt & Davis, 1986;	• Family's power over strategic decisions • Family has a mutual influence on company policy • Influence is exercised through ownership and sometimes through the participation of family members in management
Intention to retain business in the family	Cadieux, 2004; Litz, 1995;	• The intention of family to retain control of the business past the current generation

Source: ** All the authors mentioned above are quoted in Cadieux, 2004; Chua *et al.* 1999; Handler, 1989; Westhead & Cowling, 1998

Among these criteria, researchers generally agree that family involvement in the business, in terms of ownership, management and family succession, is what makes family-owned business unique. They appear to completely agree that a business owned and managed by a nuclear family is a family-owned business (Chua *et al.*, 1999). Thus, a family-owned business can simply be defined as an owner-managed enterprise with family members exercising considerable financial and/or managerial control (Aronoff & Ward, 1995).

However, researchers have had problems making any of these criteria precise (Chrisman *et al.*, 2003). Businesses with the same extent of family involvement may or may not consider themselves as family-owned businesses (Westhead & Cowling, 1998). Thus, due to the lack of precise and unifiable criteria, some researchers attempt to define family-owned business by identifying its uniqueness. In other words, they define family-owned business by the essence which differentiates family-owned businesses from all other businesses. For example, some researchers concentrate on a family's influence in setting the strategic direction of a business (Handler, 1989; Shanker & Astrachan, 1996). Following this approach, Chua *et al.* (1999) argued that an establishment was a family-owned business because it behaved as a family-owned business, and this behaviour was distinct from that of non-family business. Thus, based on the previous definitions, they proposed the following definition of family-owned business:

> *The family business is a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families.*

In this definition, they introduced the concept of vision. They proposed that a business was a family business because its vision was shaped and pursued by a dominant coalition controlled by a family or a small number of families. According to this definition, family-owned businesses include those businesses wherein family involvement takes the form of successive generations of management but not ownership (Chua *et al.*, 1999).

Furthermore, Litz (1995) revealed at least 20 definitions of family-owned business and found that researchers tended to define family-owned business through two approaches: a structure-based approach, which considered family involvement in firm ownership and management; and an intention-based approach, which focused on the realized and unrealized value preferences of the organization's upper echelons. He suggested that the essence of family-owned business is the intention of the family to retain control of the business past the current generation. Thus, by integrating these two approaches, Litz (1995) proposed a broad, integrated definition of family business:

> *A business firm may be considered a family business to the extent that its ownership and management are concentrated within a family unit, and to the extent its members strive to achieve, maintain, and/or increase intra-organizational family-based relatedness.*

All the definitions discussed above relate to western family-owned businesses. As previously noted, CFOB is still a new field which lacks published research. Few definitions of Chinese family-owned business have been found in previous literature. The variety of CFOBs definitions is summarized in Table 2:

Table 2

Chinese family-owned business definitions utilized in previous studies

Author (s)	Definition
Carney (1998)	The firms which are controlled by a single individual or family unit
Chen (1995a)	A business where the core family controls the ownership while the owner and the key family members hold the most important positions of management.
Dana (1999)	A firm owned by individuals, providing jobs for eight or more employees and operated by members of extended family
Gatfield and Youseff (2001)	A business governed and/or managed with the intention of shaping and pursuing the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families.
Guo (2003)	A business which is built upon the network of family members and is run by the patriarchal authority; ownership and managerial control are both in the hands of family members and the goal of the business is to maximize the interests of the family
Lee & Tan (2001)	Establishments with at least 50% local equity from the family. The entrepreneurs own and manage the enterprises
Pistrui *et al.,* (2001)	Owner-managed enterprises with family members exercising considerable financial and/or managerial control
Tan and Fock (2001)	Family and business remain and continue together within an establishment
Tsang (2002)	A business where a family owns the majority of stock and exercises full managerial control. Family members form the core of the management team and make the most important decisions concerning the business
Tsui-Auch (2004)	Family business is a family-owned, controlled, or managed business. It included family-owned private companies that recruit outsiders for management, and family-controlled public-listed companies
Wong (1993)	Family business means at least one of three things: 1) nepotism or the preferential recruitment and promotion of kinsmen within a firm; 2) the concept of paternalism; 3) the concept of family business places emphasis on the ownership and control of business assets by the family

These definitions reveal that researchers of overseas CFOBs tend to adopt the western definition of family-owned business to define a CFOB. However, one fact that cannot be ignored is that the western definition may not apply to CFOBs in mainland China. For example, inter-generation transition is an important criterion used to define family-owned business, but it is not an applicable criterion to distinguish CFOBs from non-family businesses. Because CFOBs have only developed in mainland China since 1978s, most of them are still in the initial phase of development. Even if the next generation has been involved in some aspects of the business, managerial control is still mainly held by the founders.

Because of this, the criterion of inter-generation transition will not be included in the definition of family-owned business in this study. As the purpose of this study is to examine the management model of mainland CFOBs, we will adopt the definition proposed by Chinese scholars Li and Wang (2004), which defined family-owned business based on property rights, family-ownership, management position and control rights. In this study, a business will be regarded as a family-owned business when it satisfies the following two conditions:

- *one nuclear family has the majority of ownership and total control rights*
- *key management positions are filled by at least two family members from the nuclear family who are related by blood or marriage with the largest shareholder in the nuclear family*

1.2 The particularities of management in family-owned business

The area of family-owned business is attracting the attention of more and more scholars because its unique aspects make it a worthy field of study. Researchers generally agree that it is family involvement in the business that distinguishes it from others (Chua *et al.*, 1999). The family-owned business is said to be made up of two overlapping subsystems: family and business. Although the two subsystems are inseparable, each has its own norms, membership rules, value structures, and organizational structures (Gersick, Davis, McCollom Hamptom & Lansberg, 1997). The interaction of family and business subsystems has made the family-owned business a complex system that involves many interrelationships. Because of these interactions, a family-owned business may have competitive advantages because family members trust one another, thus reducing monitoring costs, and the motivation for success of family members may lead to higher business performance (Dyer & Handler, 1994). However, it may also face inherent problems because these two subsystems are typically based on different and incompatible values (see Table 3 below) that can cause conflicts regarding goals, rules, relationships, etc. between the two subsystems.

Table 3

Different and incompatible values between family and business systems

Areas of conflict	**Family Systems**	**Business Systems**
Goals	Development and support of family members	Profits, revenues, efficiency, growth
Relationships	Deeply personal, of primary importance	Semi-personal or impersonal, of secondary importance
Rules	Informal expectations ("That's how we've always done it")	Written and formal rules, often with rewards and punishment spelled out
Evaluations	Members rewarded for who they are; effort counts; unconditional love and support	Support conditional on performance
Succession	Caused by death or divorce	Caused by retirement, promotion, or departure

Source: Dyer and Handler (1994)

Whether or not family involvement creates advantages or inherent problems for the family-owned business, the interaction of family and business subsystems makes family-owned business unique in terms of the pattern of ownership, governance, management and succession (Gersick *et al.*, 1997). In order to thoroughly understand the dynamics of family business, the dynamics of each subsystem need to be comprehensively studied, including its internal and external environments, life cycle, scale, objects and culture (Cadieux, 2004). This two-system model has been used by many researchers and scholars as a basis for analyzing the complex organizational behaviours, strategies, competitiveness, and family dynamics of family-owned business (Gersick *et al.*, 1997).

Tagiuri and Davis (1996) argued that a critical distinction between ownership and management within the business subsystem needed to be made, for some individuals were owners but were not involved in the operations, while others were managers but had no controlling shares. Therefore, by differentiating management and ownership within the business subsystem, they explored many important behavioural characteristics of family-owned businesses, which they called Bivalent Attributes. They revealed that these Bivalent Attributes were unique and inherent features of family-owned businesses, and derived directly from the overlap of the two subsystems. They stated that these Bivalent Attributes were the source of both advantages and disadvantages for family-owned businesses. The advantages and disadvantages of these characteristics are summarized in Table 4:

Table 4

Bivalent Attributes of family business

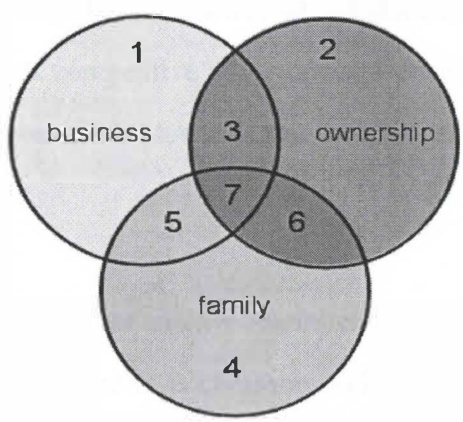
Disadvantages	*Attribute*	*Advantages*
Norm confusion and anxiety. Family business and ownership issues can get mixed up. Lack of business objectivity.	Simultaneous Roles	Heightened family and company loyalty. Quick and effective decision-making.
A stifling sense of being over-watched. Resentment toward family and business.	Shared Identity	Heightened family and company loyalty. A strong sense of mission. More objective business decisions.
Family members can point out weaknesses without cause. Early disappointments can reduce trust in work interactions.	Lifelong Common History	Relatives can draw out relatives' strengths and complement their weaknesses. A strong foundation can encourage a family to weather adversity.
Lack of objectivity in communications. Resentment and guilt can complicate work interactions. Covert hostility can appear.	Emotional Involvement and Ambivalence	Expression of positive feelings creates loyalty and promotes trust.
Can trigger sensitive reactions that can distort communication and encourage conditions for conflict.	Private language	Allows for more efficient communication with greater privacy.
Can lead relatives to feel over-watched and trapped.	Mutual Awareness and Privacy	Improved communication and business decisions that support the business, owners, and the family.
Fierce rivalries can develop between relatives	Meaning of the Family Company	Company symbolism can develop a strong sense of mission for employees.

Source: Tagiuri and Davis (1996)

Basing on the findings of Tagiuri and Davis (1996), Gersick *et al.* (1997) developed a "three-circle model" to describe the complexity and the particularity of family-owned businesses. It describes a family-owned business as three independent but overlapping subsystems: business, ownership, and family. Any individual in a family business can be placed in one of the seven sectors (see Figure 1 below), which are formed by the overlapping circles of the three subsystems. As shown in Table 5 below, every individual who is involved in the family-owned business can have responsibilities in one, two or all three circles but he/she has one and only one location in the family business system (Gersick *et al.*, 1997). For example, a family member who is neither an owner nor an employee will be in Sector 1, while an owner who is both a family member and an employee will be in Sector 7. According to Gersick *et al.* (1997), the "three-circle model" is a useful tool for understanding the source of interpersonal conflicts, role dilemmas, priorities, and boundaries in family-owned business. It helps to break down the complex interactions within a family-owned business, as it specifies different roles and subsystems within the family business system. Consequently, it helps to explain the dynamics of family-owned business by explaining how individuals in family-owned business make decisions or set strategies that fulfil the goals of each subsystem and the whole family business.

Figure 1

The three-circle model of family-owned business



Source: Gersick *et al.* (1997)

Table 5

The seven sectors in the Three-circle model

Sector 1: employee who is neither a family member nor an owner
Sector 2: an owner who is neither a family member nor an employee
Sector 3: an owner who is also an employee but not a family member
Sector 4: a family member who is neither an owner nor an employee
Sector 5: a family member who is also an employee but not an owner
Sector 6: a family member who is also a family member but not an employee
***Sector** 7*: an owner who is also a family member and an employee

Source: Gersick *et al.* (1997)

Both the two-system model and the three-circle model have revealed the uniqueness of family-owned business because of the family involvement in business. When family members are involved in business, the same individual may play different roles within the family-owned business, which brings about the existence of several subsystems. Each of the subsystems has its own structure and norms. They are inseparable and interdependent. The interaction of the different subsystems causes many conflicts, but also contributes competitive advantages to the family-owned business such as family dedication and commitment towards the company (Pérez de Lema & Duréndez, 2007).

Due to the involvement of family members in the business operation, the combination of ownership and control is common within family-owned businesses. The culture, values and objectives of family influence the decisions, strategies, and even the structure of business (Steier, Chrisman & Chua, 2004); the operation of the business needs to pursue the vision developed by the family (Chua *et al.*, 1999). Consequently, family-owned businesses have different management behaviours than those of non-family businesses (Pérez de Lema & Duréndez, 2007). Generally, family-owned businesses, especially first generation family-owned businesses, are not professionally managed (Cromie, Stephenson & Monteith, 1995; Lussier & Sonfield, 2004). Their management style tends to be more informal and subjective (Lussier & Sonfield, 2004). Non-family members are less involved within top management. Decision-making is centralized because family members avoid seeking the advice of outsiders (Cromie *et al.*, 1995).

Organization structure is less complicated in family-owned businesses and the assignment of tasks, the standardisation and control of the processes are informally organized (Cromie *et al.*, 1995). The process of formulating and implementing business strategy is influenced by family considerations (Harris *et al.*, 1994 quoted in Pérez de Lema & Duréndez, 2007) because family-owned businesses generally place family issues above business matters (Cromie *et al.*, 1995). Therefore, family-owned businesses are less growth oriented and generally more conservative in their strategic behaviour (Pérez de Lema & Duréndez, 2007). Furthermore, family-owned businesses give less consideration to activities related to planning and monitoring business management (Pérez de Lema & Duréndez, 2007) because they prefer confidentiality and privacy while management planning implies sharing confidential information (Mintzberg, 1994 quoted in Pérez de Lema & Duréndez, 2007). Normally, family-owned businesses tend to have a stable, cooperative culture and an enduring management team because family managers are normally fully committed to the business (Cromie *et al.*, 1995). Conflict and disagreement about management decisions are uncommon in family-owned businesses because the decision-making authority in not widely shared.

Even if there is no conclusive evidence on financial management that such differences between family-owned businesses and non-family businesses exist (Gallo & Vilaseca, 1996, Pérez de Lema & Duréndez, 2007), particular behaviours have been found in family-owned businesses in terms of capital structure, financial policies, managerial financial tools, and other areas of financial management. In general, financial management tends to be informal and financial information is more incomplete than that in non-family businesses (Gallo & Vilaseca, 1996, Pérez de Lema & Duréndez, 2007). They usually have low debt/equity levels (Gallo & Vilaseca, 1996). Due to the risk of losing control of their company, owner-managers in family-owned businesses avoid obtaining external financing (Gallo & Vilaseca, 1996; Pérez de Lema & Duréndez, 2007); the accumulation of retained profits is the typical way of financing the growth of family-owned businesses (Pérez de Lema & Duréndez, 2007). Consequently, family-owned businesses postpone growth because of the lack of necessary funds. However, after surviving the first generation, these businesses tend to increase their debt/equity level (Gallo & Vilaseca, 1996).

Another probable reason for low debt/equity levels in family-owned businesses is that small and medium-sized family-owned businesses normally have difficulty building successful commercial relationships with financial institutions (Gallo & Vilaseca, 1996). Financial institutions analyze the personal wealth of the owner rather than the repayment capability of the business when they make a lending decision (Gallo & Vilaseca, 1996). Thus, it is often difficult for family-owned businesses to obtain credit from financial institutions. As a result, family-owned businesses have relations with fewer financial institutions and use fewer financial products than non-family businesses (Gallo & Vilaseca, 1996).

Furthermore, family-owned businesses, particularly younger, first generation family-owned businesses, use less sophisticated techniques in their financial decision-making (Filbeck & Lee, 2000; Pérez de Lema & Duréndez, 2007). They have some minimal level of financial controls with a main objective of tax minimization (Gallo & Vilaseca, 1996). Tabone and Baldacchino (2003) pointed out that owner-managers in family-owned businesses lacked deep knowledge of accounting principles, making it difficult to use modern financial management techniques. Thus, family-owned businesses that have an outside influence, such as an external board of directors or a CFO, tend to use modern managerial financial tools, such as capital budgeting techniques, more frequently (Filbeck & Lee, 2000).

Marketing management is as important as other management functions to the success of family businesses. However, previous research on marketing management in family-owned businesses is limited (Trinquecoste, 2002). As a result of the overlap of the family and business systems, non-management family members have an influence on important decisions such as developing new markets and changing suppliers; this makes marketing management different in family-owned businesses (File, Mack & Prince, 1994; Trinquecoste, 2002). Because of the involvement of family in the business, family-owned businesses are more suspicious of unknown suppliers and exert more effort in pre-purchase searches when they are considering new vendors (File *et al.,* 1994). Generally, family business owners engage in more extensive search behaviours when selecting a new vendor. Before, during, and after purchase, they require more interaction with their service providers. Usually, family business owners are more likely to exhibit higher repurchase intent (File *et al.,* 1994). The marketing management in family-owned businesses is quite informal (File *et al.,* 1994) because of the lack of marketing knowledge and/or the lack of involvement of a marketing professional.

The field of Human Resource Management (HRM) is a particularly sensitive area for many family-owned businesses (Reid & Adams, 2001). Past research has confirmed a negative relationship between family ownership/management and professional HRM practices/expertise. In general, family-owned businesses make less use of professional HRM practices, including the use of references, appraisal systems, peer appraisal processes, training assessments and merit-based pay, than non-family owned business (De Kok, Uhlaner & Thuril, 2006; Fredy-Planchot, 2002). It is not only that family-owned businesses tend to be smaller and less complex than non-family owned businesses, but also because family-owned businesses have less need for monitoring than their counterparts (De Kok *et al.*, 2006). Family-owned businesses are less likely to have a HRM department (Reid & Adams, 2001) than non-family owned businesses. Owner-managers are the heads of both business and family. They play a fundamental role in HRM within family-owned businesses (Fredy-Planchot, 2002). Their values, their personalities, their expectations and their goals directly influence HRM policies (De Kok *et a*l., 2006; Fredy-Planchot, 2002). The owner-managers of family-owned businesses have the final say about recruitment, training, promotions, remuneration, etc. within their businesses (Fredy-Planchot, 2002). The object of HRM practices is to create personal loyalty (Fredy-Planchot, 2002). As a result, family-owned businesses rarely emphasize outside work experience and university training in promotion decisions (Reid & Adams, 2001). Recruitment is simplified to the extent that family members are chosen over non-family members (De Kok *et al.*, 2006), and the basis of performance appraisal for family employees is less likely to be related solely to their performance.

In this chapter, universal family-owned businesses were discussed in order to gain a fundamental understanding of how family-owned businesses differ from other organizational forms in terms of management. It is said that what makes Chinese family businesses unique is the way that they manage their businesses. How is this different from others and what are the characteristics of management style within Chinese family businesses? These questions will be discussed in the following chapter.

CHAPTER II

THE SPECIFIC PROBLEM OF RESEARCH

CHAPTER II

THE SPECIFIC PROBLEM OF RESEARCH

Since the late 1970s, the People's Republic of China (PRC) has developed reform policies that have opened it up to the world. Family-owned businesses, especially small and medium-sized family-owned businesses, have dominated the private sector. As of 2003, mainland China had over 3.65 million private enterprises in industry and commerce (Fu, 2004). These businesses are typically owner-managed with the assistance of the extended family and they have become an important complement to the Chinese socialist public economy. As statistics show, over 90 percent of all 3.65 million private enterprises in mainland China are family-owned businesses. However, only two percent of them identify themselves as family-owned businesses (Fu, 2004).

Whyte (1996) stated that there existed two opposing views towards Chinese family-owned businesses (CFOBs) and the role they played in the economic development in China. The obstacle view regards CFOBs as an obstacle to development. CFOBs tend to adopt a patriarch-based management model. There are some particular characteristics of this model, such as the existence of nepotism, the high premium place on family loyalty, reliance on '*Guanxi*' (relationships) as a requirement in order to conduct business, and limits on size and expansion. Because of these features, the proponents of the obstacle view argue that COFBs become an obstacle to development because their patriarch-based management model will restrain their growth (Whyte, 1996).

On the other hand, the extraordinary growth of the private sector since 1978 has also attracted many interested in family-owned businesses in mainland China. Many researchers attribute the success of China's economic performance to the market reforms that allow the revival of private, family-owned business in both the city and the countryside (Whyte, 1996). Thus, scholars have begun to regard CFOBs as an engine of development. The proponents of the engine view regard the unique features of CFOBs mentioned above as engines. For example, the obstacle view regards limits on size and expansion as an obstacle because they believe that as long as family is the organizational basis of enterprises, enterprises tend to remain small and undercapitalized; consequently, they are unable to compete with modern capital-intensive non-family enterprises. However, the engine view holds the opposite opinion. They think that the small size of organization and the family basis of investment capital of most CFOBs are actually advantages, because they minimize start-up costs and make rapid and flexible responses to changing market conditions possible.

However, any assumption that CFOBs are an obstacle or an engine to the development of the Chinese economy is oversimplified (Whyte, 1996). Even if it is widely accepted that the success of CFOB is temporary (Whyte, 1996), the positive role that they have played in the economic improvement simply cannot be ignored, although it is hard to say whether this influence is a little or a lot. CFOBs continue to dominate in Chinese communities both within and outside mainland China. It has been noted that CFOBs generally adopt a patriarch-based management model to run their businesses. Along with the development of market economy and the increasing scale of business, there are some paradoxes between large modern corporations and the non-professional management mechanism. CFOBs are restricted by their management practices; therefore, they cannot grow beyond a certain size (Yeung, 2000a). However, two capabilities of CFOBs must not be ignored: their ability to adopt and take advantage of new opportunities, and their flexibility in responding to rapidly changing market conditions.

These capabilities continue to contribute advantages to their development. CFOBs have become an important complement to the Chinese socialist market economy and their contributions have made up one quarter of the net growth in gross social output value (Dana, 1999).

2.1 The overview of Chinese family-owned businesses

Most CFOBs are located outside mainland China (Kao, 1993). These overseas CFOBs have dominated the economies in many countries and regions, including Hong Kong, Taiwan, Singapore, Malaysia, the Philippines and Thailand. It has been said that the success of East Asian economies is built upon overseas CFOBs (Kao, 1993). Recently, the extraordinary growth and economic success of overseas CFOBs have attracted an increased level of attention from western business scholars and managers.

2.1.1 The origin of Chinese family-owned businesses

Even though family-owned business is a recent phenomenon in mainland China, it has widely existed outside mainland China for hundreds of years. Driven by the desire to earn a living and to escape domestic hardship, numbers of Chinese immigrants arrived in Singapore, Malaysia, Indonesia and other countries in East and Southeast Asia during the 19th and early 20th centuries (Chen, 1995a; Redding, 1993). As these people were influenced by Confucianism, which regards the family as the basic unit of society, the Chinese family-owned business has become the dominant form for economic activity in those societies where overseas Chinese flourish. These Chinese immigrants came to Southeast Asia not as traders, but as labourers. They were merchants, artisans, small crop farmers and labourers.

However, the social environment of these ethnic Chinese was not favourable. As a consequence of being forced out of their jobs, many overseas Chinese began to establish their own businesses in order to survive in the new environment (Chen, 1995a; Wong *et al.*, 1992). They developed a particular form of organization — family-owned business and continued with this organization form. These businesses were generally small in size and were concentrated in the retail trade sector. Through family, clan and dialect ties, overseas Chinese developed their businesses within a particular ethnic Chinese network. After more than one century's development, benefiting from a propensity for hard work, strong connections, and an ability to keep business expenses low (Anwar, 1996), ethnic Chinese have been remarkably successful in the economic sectors and have emerged as a powerful regional economic force. They have expanded from retail trade into mining, transportation, manufacturing, agriculture, and finance (Chen, 1995a); some of these companies are now large multinational companies. They have played a significant role in the Asian economic miracle during the past three decades and have been regarded as "Chinese Capitalism", which has become one of the three successful forms of capitalism in Pacific Asia (Redding, 1993).

2.1.2 The significance of Chinese family businesses worldwide

Outside mainland China, CFOBs are found in most parts of the world. As previously mentioned, CFOBs dominate in societies where overseas Chinese flourish. Statistics show that more than 90% of the total overseas Chinese in the world reside in various Asian countries such as Hong Kong, Taiwan, Singapore, Indonesia, Malaysia, Thailand, the Philippines, etc. It should be mentioned that Hong Kong and Taiwan are politically part of China. Due to historical reasons, many of the most significant businessmen in these two regions are refugees from mainland China. They are Chinese but their businesses are similar to other overseas CFOBs (Redding, 1993), thus they are included on the list of overseas Chinese areas. Among the remaining 10 percent of overseas Chinese outside Asia, 60 percent of them are concentrated in America (Chen, 1995a). Table 6 presents an overview of the significance of CFOBs all over the world.

Table 6

The significance of Chinese family-owned businesses all over the world

Country/ Region	Chinese immigrants (in Millions)	Significance of Chinese family-owned businesses
Hong Kong	6.0	▪ The majority of the economy is Chinese controlled (Redding, 1993)
Taiwan	21	▪ 85 to 90 percent of all enterprises (Redding, 1993)
Singapore	2.1	▪ 92 percent of local enterprises (Lee & Tan, 2001) ▪ Share 81 percent of market capitalization (Tsui-Auch, 2004)
Indonesia	7.2	▪ Own 80 percent of private domestic capital (Yeung, 2000b) ▪ Run 160 of the top 200 largest businesses, which share 73 percent of market capitalization (Tsui-Auch, 2004)
Malaysia	5.2	▪ The majority are in the commercial sector and the majority of small-scaled industrial establishments are CFOBs, which share 69 percent of market capitalization (Tsui-Auch, 2004) ▪ Employ a total of 140,944 workers and account for 40-50 percent of Malaysia's corporate assets (Yeung, 2000b)
Thailand	5.8	▪ 90 percent of all investments in commercial and manufacturing are Chinese owned (Chen, 1995a) ▪ Share more than 50 percent of all investments in Thailand's services sectors such as financing and banking. (Yeung, 2000b) ▪ Control 80 percent of listed firms in Thailand (Ahlstrom *et al.*, 2004)
The Philippines	0.8	▪ 32 percent of the top manufacturing firms (Chen, 1995a) ▪ 43 percent of the top commercial firms ▪ Control over one-third of the 1000 largest corporations, which hold 60 percent of wealth in the Philippines. (Ahlstrom *et al.*, 2004)
Outside Asia	5.3	▪ Available statistics are limited ▪ For example, San Francisco contained 9,028 Chinese family-owned firms, Oakland 4,756, San Jose 3,431, and Sacramento 1,294. (Wong *et al.*, 1992) ▪ Concentrated in the commercial and manufacturing sectors
Mainland China	1.3 billion	▪ 90 percent of all 3.65 million private enterprises ▪ 63.86 percent is in a third industry, which accounts for 2.33 million ▪ Occupies 30 percent of resources, and contributes 60 percent to the growth of Chinese GDP. (Fu, 2004)

These CFOBs constitute a family-oriented network that transcends national boundaries and has gained significant success in the world economy. Kao (1993) has called this worldwide network of CFOBs the "Chinese Commonwealth", and Weidnbaum (1996a) entitled it the "Bamboo Network". It is primarily a global network of entrepreneurial relationships, which consists of many individual enterprises that share a common culture. The heart of the network is Hong Kong, Taiwan, Singapore, and the China Coast, and the network extends to nearly every Southeast Asian country.

2.1.3 The industrial distribution of Chinese family-owned businesses

Previous studies revealed that overseas CFOBs, which were small in size, typically concentrated in restaurants, grocery stores, garment factories, gift shops, laundromats, and various other retail and wholesale businesses that cater to both ethnic and non-ethnic clients (Wong *et al.*, 1992). At first, overseas CFOBs were involved primarily in traditional agriculture and in the commercial sector. After that, overseas CFOBs began to emerge in the manufacturing sector. However, they were notably in such industries which were not capital intensive, such as manufactured metal products, plastics, toys, garment, electronic subcomponents, etc. (Carney, 1998; Tan & Fock, 2001). During the end of the 1970s and the early 1980s, overseas Chinese entrepreneurs became interested in property; many large businesses were founded in the real estate sector in Southeast Asia. After almost one century's development, the industrial structure of overseas CFOBs changed. Bjerke (2000) pointed out that CFOBs in Southeast Asia moved from being primarily commodity-based to being mostly manufacturing-based, and some have moved into service-based industries.

2.2 The characteristics of management in overseas Chinese family-owned businesses

Overseas CFOBs share unique characteristics, even if they are scattered around the world (Tsang, 2001). Many researchers have studied their management style (Ahlstrom *et al.*, 2004; Carney, 1998; Chen, 1995a, b; Davies & Ma, 2003; Ding, 2000; Gatfield & Youseff, 2001; Kao 1993; Kirbride & Tang 1992; Lee, 1996; Leung, 1995; Redding 1993; Schlevogt, 2001; Sheh, 2001; Tsang, 2001, 2002; Weidenbaum, 1996a, b; Wong *et al.*, 1992; Yeung, 2000a; Yeung & Soh, 2000; Yu, 2001) and they have found that the success of overseas CFOBs is based upon relatively simple personally managed organization operations within a network of kin and ethnic relation. Overseas CFOBs have a personalistic style of management (Chen 1995a; Kao, 1993), which has its origins in traditional Chinese culture.

It is widely agreed that family-based operations and extensive business networks among Chinese communities are the most distinctive characteristics of overseas CFOBs (Ahlstrom *et al.,* 2004; Carney, 1998; Chen, 1995a; Davies & Ma, 2003; Ding, 2000; Kao, 1993; Kirbride & Tang, 1992; Poutziouris *et al.,* 2002; Redding, 1993; Sheh, 2001; Tsang, 2002; Weidenbaum, 1996a, b; Yeung, 2000a; Yeung & Soh, 2000; Yu, 2001). The essence of traditional Chinese culture resides in Confucianism. Influenced by Confucian values, the family is an essential unit in both the social and the economic society. Within this ideology, “familism” is the essence of Chinese business (Davies & Ma, 2003; Gatfield & Youseff, 2001). Therefore, overseas CFOB is described as a duplication of the structure of the traditional Chinese family (Tsui-Auch, 2004). Researchers have speculated that the management ideology within overseas CFOB is the result of familism and paternalism associated with Chinese sociological characteristics (Davies & Ma, 2003). This management style, which Redding (1993) called the “spirit of Chinese capitalism", is different from both western and Japanese management styles. Typically, the organizational structure of overseas CFOBs can be described as having closed family ownership, small scale organization and a relatively simple and informal structure with centralized decision-making (Ahlstrom *et al.,* 2004; Carney, 1998; Chen 1995a; Ding 2000; Gatfield & Youseff, 2001; Kirkbride & Tang, 1992; Lee, 1996; Redding, 1993; Schlevogt, 2001; Sheh, 2001; Weidenbaum, 1996b; Yeung, 2000a; Yeung & Soh, 2000; Yu, 2001).

In terms of management practices, overseas CFOBs generally have an autocratic and paternalistic leadership style (Bjerke, 2000; Chen 1995a; Davies & Ma, 2003; Ding, 2000; Kirkbride & Tang, 1992; Lee & Tan, 2001; Redding 1993, Sheh, 2001; Tsang, 2001; Weidenbaum, 1996b; Wong *et al.*, 1992; Yu, 2001). The owner-manager, who is typically the patriarch of the family, has absolute power over the business. Management control is centralized in the hands of the owner-manager and/or core family members (Ahlstrom *et al.*, 2004; Bjerke, 2000; Chen, 1995a; Davies & Ma, 2003; Gatfield & Youseff, 2001; Redding, 1993; Schlevogt, 2001; Tsang, 2002; Weidenbaum, 1996b; Yeung, 2000a; Yeung & Soh, 2000). As the Chinese generally do not trust outsiders, top management positions are generally filled with family members (Carney, 1998; Tsang, 2002; Weidenbaum, 1996b; Wong *et al.,* 1992). Therefore, nepotism obviously exists within overseas CFOBs (Kirkbride & Tang, 1992; Redding, 1993; Sheh, 2001; Yu, 2001).

Influenced by Chinese cultural values, the operation of overseas CFOBs relies heavily on extensive business networks which are also personal networks based on kinship and lineage (Ahlstrom *et al.,* 2004; Carney, 1998; Chen, 1995a; Davies & Ma, 2003; Ding, 2000; Kao, 1993; Kirbride & Tang 1992; Poutziouris *et al.,* 2002; Redding, 1993; Sheh, 2001; Tsang, 2002; Weidenbaum, 1996a, b; Yeung, 2000a; Yeung & Soh, 2000; Yu, 2001). Almost all activities in overseas CFOBs (for example recruitment, market expansion, and obtaining necessary financing) rely on these networks (Kao, 1993; Redding, 1993). Chinese entrepreneurs focus a lot of attention on financial management and they excel in cash management (Bjerke, 2000). They give priority to production management but dedicate less attention to marketing management and human resource management (Bjerke, 2000; Redding, 1993). Due to the limitations caused by their small scale, overseas CFOBs typically focus on one product or one market (Yeung, 2000a; Yeung & Soh, 2000). They generally lack branding and service is considered to be less important (Ahlstrom *et al.*, 2004; Bjerke, 2000; Weidenbaum, 1996b; Yeung, 2000a; Yeung & Soh, 2000). The salient characteristics of overseas CFOBs management found in previous research have been summarized in Appendix A. Among these various ideas, the following areas of management with distinctive characteristics in CFOBs can be synthesized: ownership, organizational structure, leadership style, general management, production management, financial management, marketing management, human resource management, the influence of Chinese culture, and personal networks.

2.2.1 Ownership

Family ownership is prevalent in overseas CFOBs (Ahlstrom *et al.,* 2004; Chen, 1995a, b; Gatfield & Youseff, 2001; Hwang, 1990; Li & Fu, 2000; Redding, 1993; Weidenbaum, 1996b; Wong *et al.*, 1992; Yeung, 2000a; Yeung & Soh, 2000; Yu, 2001). Typically, the ownership of an overseas CFOB is controlled by one single family (Hwang, 1990; Chen, 1995b). Family savings are the primary resources used to establish the overseas CFOB (Hwang, 1990). The single owner of overseas CFOBs, who is generally the paterfamilias of the family, tends to regard the business as the private property of the core family and thereby is unwilling to share ownership with non-family members. Chen (1995a) pointed out that as long as the business itself could provide capital or borrow capital from friendly sources, the business owner(s) would be unwilling to share proprietorial rights with others, even friends. To maintain family ownership is sometimes even more important than the growth of the business. Li and Fu (2000) stated that traditional overseas CFOBs preferred family ownership to the growth of their enterprises. They may even refuse to obtain resources from outside the family in order to maintain the family ownership.

Here the family ownership of overseas CFOBs means the common ownership of family possessions. Influenced by the collectivism of Chinese culture, each member in the family has to give a great portion of his/her income to the family and he/she regards it as his/her shared property which is controlled by the householder (Hwang, 1990). Possessions are normally seen as belonging to the whole family, even if individuals may have stewardship of certain parts of the resource (Yu, 2001).

2.2.2 Organizational structure

Generally, high centralization results in a flat structure, since delegation requires a more complex structure (Redding, 1993). As noted earlier, overseas CFOBs are owned by families and are regarded as private family property. Even though some overseas CFOBs have grown into multinational corporations, the ownerships are still under tight control of core family members and the top management mainly consists of family members (Carney, 1998; Tsang, 2002; Weidenbaum, 1996b; Wong *et al.,* 1992). Due to the concentration of ownership and management control, CFOBs are typically small in size and have a simple organizational structure (Ahlstrom *et al.,* 2004; Carney, 1998;

Chen 1995a; Ding 2000; Gatfield & Youseff, 2001; Kirkbride & Tang, 1992; Lee, 1996; Redding, 1993; Schlevogt, 2001; Sheh, 2001; Weidenbaum, 1996b; Yeung, 2000a; Yeung & Soh, 2000; Yu, 2001). The majority of overseas CFOBs are small companies with an average number of employees below 50 (Chen, 1995a), and they tend to remain small in size (Redding, 1993; Schlevogt, 2001; Yeung 2000a; Yeung & Soh, 2000). In fact, owing to structural features and management style, many overseas CFOBs experience inherent difficulty in growing large.

Overseas CFOBs are also noted for their simple structure, with very few ancillary departments that are not directly related to generating profits, such as research and development, labour relations, public relations, and market research (Chen, 1995a; Yeung, 2000a; Yeung & Soh, 2000). Most overseas CFOBs concentrate only on production, sales, or service (Chen 1995a; Redding, 1993; Weidenbaum, 1996b). Few develop large functional departments. Informalities are prevalent in overseas CFOBs (Chen, 1995a). Generally, overseas CFOBs do not have a complete set of rules and systems; various functions within the overseas CFOBs are not clearly defined and roles of various positions are not clearly assigned (Chen, 1995a; Redding, 1993; Sheh, 2001). The level of standardization is also very low, with few job specifications and more people dealing in a range of activities across a number of fields (Chen, 1995a; Yeung, 2000a). There are fewer routine work procedures; employees can be assigned to various jobs at the whim of business owners (Chen, 1995a).

Moreover, influenced by Confucian values that strongly emphasize hierarchical order (Redding, 1993; Sheh, 2001), overseas CFOBs typically have a strong emphasis on hierarchical order within the organizational structure. As Sheh (2001) argued, Chinese entrepreneurs tend to mix family matters with business matters. Consequently, the organizational hierarchy resembles that of the family hierarchy. Most overseas CFOBs do not have a formal or explicit organization chart; management positions are normally based on the individual position and seniority in the family hierarchy (Sheh, 2001).

2.2.3 Leadership style

The leadership style of overseas CFOBs entrepreneurs is described as an autocratic and paternalistic leadership style (Bjerke, 2000; Chen 1995a; Davies & Ma, 2003; Ding, 2000; Kirkbride & Tang, 1992; Lee & Tan, 2001; Redding 1993, Sheh, 2001; Tsang, 2001; Weidenbaum, 1996b; Wong *et al.*, 1992; Yu, 2001). Power within overseas CFOBs is associated with ownership (Redding, 1993, Gatfield & Youseff, 2001). As a result, owner-managers who have majority ownership have absolute authority in the business; and that leads to an autocratic leadership style (Bjerke, 2000; Chen, 1995a; Kirkbride & Tang, 1992). In order to maintain their authoritative position, owner-managers in overseas CFOBs generally keep tight control of information (Bjerke, 2000; Chen, 1995a), especially financial information. The subordinates are dependent upon the owners for information. The amount of information given to a specific subordinate depends on the degree of trust that the leader has for that individual. It is said that this kind of leadership style can be best described by the word "didactic" (Chen, 1995a; Yeung, 2000a).

The leadership style of overseas CFOBs can be also described as a paternalistic style of leadership (Gatfield & Youseff, 2001; Kirkbride & Tang, 1992; Sheh, 2001, Yu, 2001). Following this leadership style, Chinese paternalistic leaders run their businesses like a family (Lee, 1996). They view their staff as their family and exhibit a strong sense of responsibility towards employees; they also act as guardians and providers of the subordinate's welfare (Redding, 1993). They tend to provide lifetime employment to their employees and do not normally discharge subordinates merely based on unsatisfactory performance (Sheh, 2001). The patriarchal owners emphasize the value of familism and moral obligation (Yu, 2001). The employees feel obligated to be loyal and to obey their employers, while the employers feel obligated to be concerned with the employees' welfare, both moral and economic. Hence, nepotism is common in overseas CFOBs, particularly those of small and medium-sized enterprises (Kirkbride & Tang, 1992; Redding, 1993; Sheh, 2001; Yu, 2001).

2.2.4 General management

General management here refers to the daily operation process in CFOBs. Due to a common lack of operating systems, the management process in CFOBs is more informal and intuitive than that in Western countries (Bjerke, 2000). Planning is more personalized in CFOBs (Bjerke, 2000; Chen, 1995a; Redding, 1993). CFOB entrepreneurs neglect standard procedures and use hardly any written policies or rules (Bjerke, 2000). In this section, the following two dimensions of the process will be described: management control and decision-making procedure.

2.2.4.1 Management control

As the result of family ownership, management control is mainly in the hands of core family members (Ahlstrom *et al.*, 2004; Bjerke, 2000; Chen, 1995a; Davies & Ma, 2003; Gatfield & Youseff, 2001; Redding, 1993; Schlevogt, 2001; Tsang, 2002; Weidenbaum, 1996b; Yeung, 2000a; Yeung & Soh, 2000). According to Chen (1995a), management control refers to the processes of translating organizational goals into action codes, monitoring the results across a range of activities, comparing results against projected goals, and adopting a measure to correct deviations from the plan. It is usually a rational and open process. However, due to the lack of structure and rules in overseas CFOBs, neither the authority nor the responsibility of each position in overseas CFOBs is clearly defined (Chen, 1995a). Thus, performance assessments are not objective. At times, the degree of loyalty towards the manger becomes the measure of employee performance (Chen, 1995a). The owners tend to attach great importance to the 'degree of loyalty' of their subordinates rather than their actual performance (Chen, 1995a; Redding, 1993; Weidenbaum, 1996b). They give special rewards, which are normally transferred in a concealed way, and develop special ties with those who have loyally implemented their directives. For those who do not enjoy special ties with the owners, the owners try to keep the wage as low as possible. In this regard, Chinese management control is said to be "a subtle art of weaving and balancing obligation networks" (Chen, 1995a: p75).

2.2.4.2 Decision-making procedure

Decision-making is highly centralized within overseas CFOBs (Ahlstrom *et al.*, 2004; Bjerke, 2000; Carney, 1998; Chen, 1995a; Davies & Ma, 2003; Ding, 2000; Kirkbride & Tang, 1992; Lee, 1996; Schlevogt, 2001; Tsang, 2002; Weidenbaum, 1996b; Wong, 1993). The decision-making right is usually in the hands of owner-managers within CFOBs, and decisions are not normally disputed (Davies & Ma, 2003; Yu, 2001). The decision is often made by the boss for subjective, rather than objective reasons. The process of decision-making is very simple and the boss typically makes most of his decisions based on intuition and/or experience (Chen, 1995a). As mentioned above, the hierarchical and paternalistic nature of Chinese family is carried over into the CFOBs; this ensures less bureaucracy and quicker decision-making (Weidenbaum, 1996b).

There is a larger "power distance" between owners and the subordinates (Chen, 1995a). Authority is neither shared nor delegated in decision-making (Ahlstrom *et al.*, 2004; Lee, 1996); those managers who are not among the core members of the family do not have access to key decision-making procedures. The goal-setting process is often treated as an internal family affair (Tsang, 2002). The financial situation of CFOBs is often regarded as a family secret and many important decisions are made after discussions within the family.

2.2.5 Production management

Overseas CFOBs typically give priority to production (Bjerke, 2000; Redding, 1993) and they are known for their production flexibility (Yu, 2001). Chinese entrepreneurs focus their attention on production management, which is under tight control (Tsang, 2002). The common role of supervisors in overseas CFOBs is to maximize production (Bjerke, 2000). Due to the limitations of small scale, overseas CFOBs tend to focus on one product (Yeung, 2000a; Yeung & Soh, 2000). The capacity of production is a major restriction but they do not have the necessary investment to expand (Chen, 1995a). Their productions are often contract manufacturing based on the designs and brands of the contracting firm (Ahlstrom *et al.*, 2004). They typically focus on producing low cost components or manufacturing for others (Carney, 1998; Weidenbaum, 1996b). Overseas CFOBs are strongly market-oriented; they are able to utilize abundant cheap resources in underdeveloped markets and gather cheap raw materials from all over the world in order to manufacture products at lower costs. They make profits relying on reducing production cost and they give little attention to research and development (Ahlstrom *et al.*, 2004; Yeung, 2000a; Yeung & Soh, 2000).

2.2.6 Financial management

Chinese entrepreneurs are normally sensitive to cost management and they are financially efficient (Redding, 1993; Yeung, 2000a). Tight control is exerted on financial management (Tsang, 2002). The financial situation of overseas CFOBs is often regarded as a family secret and many important decisions are made after discussion within the family. Financial management is personally controlled and the position of financial manger is typically reserved for the boss himself or a key member of the family, such as the wife of the boss (Chen, 1995a). Chinese managers excel in financial management, particularly in cash management, and transactions are often conducted only in cash (Bjerke, 2000). They tend to use their personal networks to find capital in informal markets to start their businesses and to expand. They rarely take loans from financial institutions (Ahlstrom *et al.*, 2004; Bjerke, 2000). In other words, due to the reliance on family members and a distrust of outsiders, overseas CFOBs rely on internal financing (Ahlstrom *et al.*, 2004; Chen, 1995a; Wong *et al.*, 1992). Most overseas CFOBs, especially small overseas CFOBs, tend to adopt a no-debt financial management policy (Ahlstrom *et al.*, 2004; Bjerke, 2000; Chen, 1995a) in order to avoid the risk of not being able to repay a debt in the future—which means no long-term borrowing for investing in capital assets. There is a popular belief that the use of debt is an indication of a bad financial situation (Chen, 1995a). CFOBs obtain limited amounts of long-term loans only if it is necessary. In order to avoid losing family ownership, they remain small in size, rather than have an outside owner. This is usually regarded as a constraint on overseas CFOBs' growth (Ahlstrom *et al.*, 2004).

2.2.7 Marketing management

Marketing management in overseas CFOBs is relatively informal and the managers usually have limited knowledge of marketing (Bjerke, 2000). Chinese entrepreneurs are excellent at finding market niches, and are very sensitive to market changes (Bjerke, 2000). Normally, due to limitations of scale and limited finances, they tend to focus on only one product or one market (Yeung, 2000a; Yeung & Soh, 2000). They have fewer practices in adverting and promotions in order to maintain a low profile (Bjerke, 2000; Weidenbaum, 1996b), and service is considered to be less important (Bjerke, 2000). For small overseas CFOBs, marketing is a major challenge. They almost have no sales policy, and little market research and organized distribution. They rarely rely on branding to market their products (Bjerke, 2000). Normally, they sell their products through buying agents or trading companies, and they are relatively weak in creating international brand names (Ahlstrom *et al.*, 2004; Yeung, 2000a; Yeung & Soh, 2000). Moreover, they typically act as suppliers to others. The ties of personal networks and the loyalties that develop in societies where mutual obligation dominates play an important role in marketing expansion (Redding, 1993).

2.2.8 Human resource management

Overseas CFOBs make very little use of western human resource management techniques (Chen, 1995a). The implication of family members in overseas CFOBs is dominant (Carney, 1998; Hwang, 1990; Wong *et al.,* 1992). Personal relationship networks play a significant role in recruitment in overseas CFOBs. As the Chinese only trust family members and they have a strong emphasis on the values of familism and moral obligation, overseas Chinese entrepreneurs tend to recruit only family members and relatives into their enterprises, particularly those of small and medium-sized enterprises (Redding, 1993). When it is necessary to hire more employees, those who have a personal relationship with the owner-manager(s) or other family members will have priority. It is clear that nepotism is common in overseas CFOBs (Kirkbride & Tang, 1992; Redding, 1993; Sheh, 2001; Yu, 2001). Influenced by the paternalistic style of leadership, Chinese entrepreneurs tend to provide lifetime employment to their employees (Sheh, 2001). As long as the subordinates do not commit any major mistakes, the Chinese paternalistic leader does not normally discharge subordinates based merely on unsatisfactory performance. Moreover, under the collectivistic social structure, individuals within overseas CFOBs surrender personal needs in deference to the organization (Gatfield & Youseff, 2001).

Human resource management in overseas CFOBs is more people-oriented than performance-oriented (Lee, 1996; Sheh, 2001). Appraisement of performance is informal, even in CFOBs that attempt to apply a formal appraisement system, because they lack qualified personnel to properly implement a formal appraisement system (Bjerke, 2000). Hwang (1990) argued that due to the lack of a formal job description for each position, it was difficult for the manager to evaluate employee's performance based on certain objective criteria. A common control method of appraisement of performance is to ask one of the employees to watch another (Bjerke, 2000). Overseas CFOBs commonly promote people internally based on the subordinate's reliability and loyalty rather than on capability and experience (Sheh, 2001).

2.2.9 The influence of Chinese cultural values

Chinese cultural values are often seen as an important factor in determining Chinese business organizational and managerial practices (Bjerke, 2000; Carney, 1998; Ding, 2000; Gatfield & Youseff, 2001, Kirkbride & Tang, 1992; Lee, 1996; Redding, 1993; Schlevogt, 2001; Sheh, 2001; Tsang, 2001, 2002; Tsui-Auch, 2004; Yu, 2001). The influence of Chinese cultural values on managerial practices is so significant that it has created the distinguishing characteristics of the Chinese managerial system. Chinese traditional culture values, such as familism, paternalism, insecurity, clear hierarchy, power distance, reciprocal vertical obligation, benevolent autocracy, (Kirkbride & Tang, 1992; Redding, 1993; Tsang, 2001) have influenced nearly every aspect of Chinese management. Traditional Chinese culture has emerged from Confucian philosophy. Under the Confucian ideology that the family is an essential unit in both social and economic society (Redding, 1993; Wong, 1993), overseas CFOBs are described as a duplication of the structure of the traditional Chinese family (Tsui-Auch, 2004). Chinese entrepreneurs, who are usually the patriarch of the family, run their businesses like a family. Therefore, familism and paternalism are the essence of overseas CFOBs (Redding, 1993). The patriarch of the family has unquestioned authority and runs the business with a small inner circle of family members and friends. Family relationships are inevitably brought into organizations and organizations are run like a family (Lee, 1996). The Chinese entrepreneurs view their staff as their family and exhibit a strong sense of responsibility towards employees. Obligation plays an important role in Chinese traditional management. The employees feel obligated to be loyal and to obey their employers, while the employers feel obligated to be concerned with the employees' moral and economic welfare (Lee, 1996).

Furthermore, because of the traditional Chinese cultural value of insecurity, the Chinese only trust close relatives (Redding, 1993). Family relationships have a significant influence on the business management system. Overseas CFOBs pay special attention to trust in business transactions; thus, business relationships are always built on notions of friendship and loyalty (Redding, 1993). As Chen (1995a) stated, an overseas CFOB includes five subgroups: core family members, close relatives, long-term employees, distant relatives, and unrelated employees. The closer to the core they are, the more dominant their position will be. It is clear that nepotism widely exists in overseas CFOBs, (Kirkbride & Tang, 1992; Redding, 1993; Sheh, 2001; Yu, 2001) and they engage extensively in business networks. In addition, the Chinese only trust family members, and there is a strong emphasis on maintaining family ownership. Generally, starting capital comes from family saving and/or borrowing from close friends. Thus, most overseas CFOBs are started with little capital, and a small number of people (Lee, 1996). The size of their organizations is usually kept small because they are afraid of losing family ownership during the process of expansion (Chen, 1995a; Li & Fu, 2000; Redding, 1993; Weidenbaum, 1996b; Yeung, 2000a; Yeung & Soh, 2000).

Confucian thinking emphasizes social order, and a clear hierarchy exists in Chinese society (Sheh, 2001; Tsang, 2001; Tsui-Auch, 2004). As Bjerke (2000) stated, Chinese culture is a power-oriented culture. An obligation to hierarchically arranged authorities is important in Chinese culture (Lee, 1996). Family members are obliged to be loyal to the father, who is usually the patriarch of the family. Power is associated with ownership (Gatfield & Youseff, 2001; Redding, 1993) and organizational hierarchy resembles the family hierarchy (Sheh, 2001). Consequently, the patriarchal owners of overseas CFOBs have absolutely authority that leads to an autocratic and paternalistic leadership style (Chen, 1995a). Following this leadership style, decision-making in the enterprise is centralized in the hands of patriarchal owners. Delegation of authority seldom occurs within overseas CFOBs and subordinates are not involved in the decision-making process (Redding, 1993).

2.2.10 Networks

Overseas CFOBs are typically operated within extensive networks, which are based on kinship, lineage and/or common dialect (Ahlstrom *et al.,* 2004; Carney, 1998; Chen, 1995a; Davies & Ma, 2003; Ding, 2000; Kao, 1993; Kirbride & Tang 1992; Poutziouris *et al.,* 2002; Redding, 1993; Sheh, 2001; Tsang, 2002; Weidenbaum, 1996a, b; Yeung, 2000a; Yeung & Soh, 2000; Yu, 2001). Chinese business success is said to be dependent on these networks (Kao, 1993; Poutziouris *et al.*, 2002; Weidenbaum, 1996a). It is not only a personal network, but also a business network. Overseas CFOBs facilitate and reduce the transaction costs of doing business through these networks and this becomes a core competitive advantage (Kao, 1993). Influenced by the Chinese culture value of personalism, *Guanxi* (relationship) is essential in Chinese society (Redding, 1993). In the minds of Chinese entrepreneurs, *Guanxi* (relationship) is everything and anything can be done in a network (Bjerke, 2000). Almost all of the activities in CFOBs rely on these networks. Overseas Chinese entrepreneurs recruit employees, expand into new markets, and obtain necessary financing through these networks. Overseas CFOBs are linked in networks 'like a spider's web' and relationships are treated as friendships with a continued exchange of favours (Kao, 1993; Redding, 1993). Networks are not formally organized, but are based on personal relationships established and consolidated on the value of trust. This network serves as a substitute for limited company resources in overseas CFOBs and it allows for flexibility and facilitates responsiveness to shifts in the international environment (Carney, 1998; Kao, 1993; Yu, 2001).

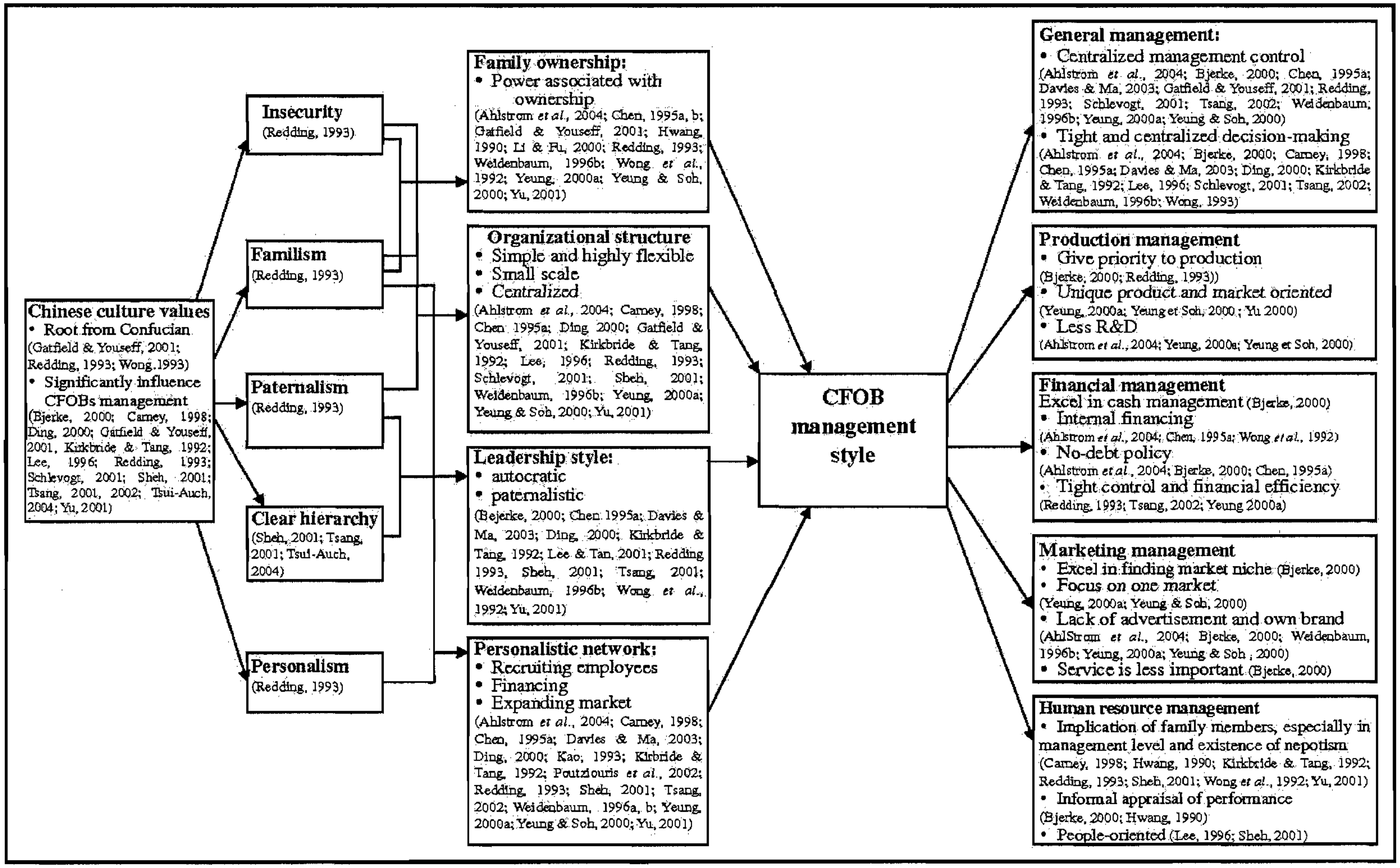
2.3 Management model in Chinese family-owned business

After reviewing the distinctive features of overseas CFOBs management, an overarching framework needs to be built to synthesize these various characteristics in order to have a systematical understanding of management style within overseas CFOBs. Based on the aforementioned literature review, the main elements of overseas CFOBs management style are illustrated graphically in Figure 2 below. Figure 2 describes the overseas CFOBs management model from two major aspects: the structural aspect and the managerial aspect. The managerial aspect shown on the right side of Figure 2 describes the characteristics of main management functions within CFOBs including general management, financial management, human resource management, and marketing management. The elements shown on the left side of Figure 2 are related to structural aspect of the overseas CFOBs' management model, which include ownership, organizational structure, leadership style and extensive personal networks. The Chinese culture shown on the left side of Figure 2 is regarded as a contextual factor in this model. Figure 2 illustrates that there is a causal link between traditional Chinese cultural values and its management systems. As previously explained, Chinese culture has emerged from Confucian philosophy. The traditional culture values, including insecurity, familism, paternalism, clear hierarchy and personalism, have a deep influence on overseas CFOBs managerial ideology, and have created the distinguishing characteristics of CFOBs management systems. Under Confucian philosophy, familism and paternalism are the essence of overseas CFOBs. As a result, ownership is under the tight control of family members, and the paterfamilias of the family is generally the single owner of an overseas CFOB. Due to the influence of insecurity, overseas CFOBs prefer family ownerships to the growth of their businesses. Therefore, overseas CFOBs are typically small and medium-sized enterprises with simple organizational structure. Power is associated with ownership, and thus management control is highly centralized within CFOBs, and management positions are filled by family members. The Chinese culture emphasizes a clear hierarchy, and the organizational hierarchy resembles that of the family hierarchical order. Owner-managers of overseas CFOBs have absolute authority in the enterprise; this leads to a leadership style that is both autocratic and paternalistic. Personal relationship has a significant influence on the Chinese business management system. Because of familism and personalism, overseas CFOBs are typically operated within extensive networks, which are not only personal networks but also business networks. Almost all the activities in CFOBs rely on these networks.

In this research, the framework shown in Figure 2 will be used as a model of overseas CFOBs' management style. We will follow this model and empirically study the CFOBs' management style in mainland China.

Figure 2

Chinese family-owned business management model



2.4 Research questions

The objectives of this research are to study the management model of CFOBs in mainland China and understand whether they follow the same principles that have been used to describe overseas CFOBs in previous literature. Following theses objectives and using the information gathered from the literature review, three general research questions were formulated. These questions were then broken down into specific research questions. The general and specific research questions are presented in Table 7:

Table 7

Summary of research questions

Research Objectives	**General research questions**	**Specific research questions**
Research objective 1: Study the management model of small and medium sized CFOBs in mainland China	Research question 1: How have the small and medium-sized CFOBs been managed in mainland China?	1. What is their organizational structure? 2. What management practices do they utilize in the following areas: 1) General management functions 2) Production management? 3) Human resource management? 4) Marketing management? 5) Financial management?
	Research question 2: What is the management style of CFOBs in mainland China?	1. Do they use a unique style? 2. What are the characteristics of their management style? 3. How do Chinese cultural values influence their management style?
Research objective 2: Understand whether they follow the same principles that have been used to describe overseas CFOBs	Research question 1: How different is the management model in mainland CFOBs to that of overseas CFOBs?	1. Is the management model similar or different to that of overseas CFOBs? 2. If there is a difference, what is the difference?

CHAPTER III

METHODOLOGY

CHAPTER III
METHODOLOGY

The purpose of this chapter is to present the research methodology used in this study, and to explain the research process in detail. The principal aspects of the research methodology, including research design, population and sample selection, data collection methods and process, data analysis methods will be explained in following sections.

3.1 The choice of research strategy

Among the various research strategies available, case study was chosen as the research strategy for this study. The fact that family-owned businesses have only existed in mainland China for about twenty years suggested that detailed investigation of the emerging family business sector would be difficult. Furthermore, owing to the limited availability of up-to-date statistics on the emerging, rapidly developing family business sector and the reservations that family entrepreneurs have about participating in any fieldwork, it would be also hard to offer generalizations through numerically representative samples. Case study, as defined by Yin (1994), is "a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence". It is appropriate for understanding complex social phenomena and helping provide the holistic characteristics of real-life events (Yin, 1994). Given the unique strength of case study – namely, its ability to deal with a variety of evidence, case study is appropriate for exploring a new area and for displaying the nature of a phenomenon. Due to the lack of previous empirical research of mainland CFOBs, this study is exploratory and descriptive. Case study is suitable for this study because it enables the study of the management perspectives in CFOBs, and it permits the development of detailed, intensive knowledge of the management perspective. Through case study, a holistic view of the reality and features of mainland CFOBs management model can be developed.

In brief, as previously mentioned, the purpose of this research is to explore how small and medium-sized family-owned businesses have been managed in mainland China. Owing to the complexity of the management process, a large quantity of information and anecdotal evidence would allow us to more deeply explore the characteristics of the management style in mainland CFOBs. Therefore, in line with the suggestions of Yin (1994), a qualitative case study was chosen as the research strategy for this study.

3.2 Sampling design

The purpose of samples is to provide the data needed to address the research question(s) (Mason, 2002). Therefore, sampling design should ensure that the chosen sample will allow researchers to generate appropriate data and ideas which advance the understanding of the subject to be studied (Mason, 2002). It is generally difficult to pre-specify the number of samples required in qualitative research (Robson, 2002). Samples in qualitative research are usually small in size because, thanks to the advantage of the in-depth coverage provided, it is better to retain depth of data collection than to increase the breadth of the sample size (Mason, 2002).

Case study as a research strategy can be either single-case design or multiple-case design. According to Yin (1994), the single-case design is suitable in certain situations: where the case represents a critical test of existing theory, where the case is a rare or unique event, or where the case serves a revelatory purpose. In contrast, multiple-case study is appropriate for making analytical generalizations from a "sample" of cases (Robson, 2002). The evidence gained from multiple cases is usually more extensive and the results obtained from the cases are therefore more compelling (Robson, 2002; Yin, 1994). The purpose of this study was to explore the characteristics of management models within mainland CFOBs, and therefore multiple-case design was used in order to obtain rich evidence to display the characteristics of CFOBs. The conducting of six case studies was planned for this research. However, the number of cases actually conducted could have been modified during the research process.

3.2.1 The units of analysis and the criteria of sample

In qualitative research, the sample is not intended to be statistically representative. Thus, units are selected to reflect the particular features of the sampled population. Characteristics of the population should be used as the basis of selection in order to make them suitable for small-scale and in-depth studies (Ritchie & Lewis, 2003). Enterprise is the unit of analysis in this research. The principle criteria of our sample are: 1) a family-owned enterprise where both ownership and control are in the hands of one nuclear family which has total control rights, and there are at least two family members from the nuclear family, who are related by blood or marriage with the largest shareholder in the nuclear family holding the key management positions (Li and Wang, 2004), 2) be small and medium in size, and 3) located in mainland China. The definition of SMEs in China is different from that in western countries. Following the definition used by the National Bureau of Statistics of China, enterprises participating in this research should be those which have fewer than 2000 employees; and/or have annual sales of less than forty million Canadian dollars; and/or have gross assets of less than fifty-five million Canadian dollars.

Furthermore, the enterprises included in the sample should be limited to being in the same sector and in the same province. The reasons are 1) the majority of family-owned businesses in mainland China are in the manufacturing sector; 2) even though family-owned businesses can be found all over the country, they are distributed mainly over the south-eastern coastal regions; 3) enterprises are limited in the same sector in order to minimize extraneous variation that might arise from differences between different sectors. The six enterprises selected for this research are all in the manufacturing sector and are located in Zhejiang province, where family-owned businesses are prevalent and well developed.

3.2.2 Sampling procedure

Two major difficulties were met during the process of sampling. Firstly, it was difficult to find an available database or enterprise list of family-owned businesses located in mainland China. Chinese enterprises are divided into four categories: 1) state-owned enterprises, 2) collective-owned enterprises, 3) private and individually owned enterprises; and 4) others, which mainly include share-holding corporations and foreign joint ventures. Family-owned businesses are primarily in the third category and in some cases, in the fourth category. As previously mentioned, family business is still a new phenomenon in mainland China and only two percent of mainland CFOBs identify themselves as being family-owned businesses (Fu, 2004); therefore, it is impossible to select the sample from any existing database because of the limited availability of up-to-date industrial statistics on the emerging and rapidly developing private sector.

Secondly, due to the secretive nature of CFOBs, it is hard to find voluntary enterprises that are willing to participate in a study. In China, students at the master level generally do not conduct fieldwork by visiting enterprises for research. Normally, only research institutes, university professors, and PhD students conduct this type of investigation. Owing to this fact, each enterprise refused the study requirements when I first contacted by telephone five well-known family-owned businesses in my hometown.

In order to overcome these two difficulties, "Snowballing" was adopted to select the cases. "Snowballing" is the method of selecting sample by asking people who have already been interviewed to identify other people they know who fit the section criteria (Copper & Schindler, 1998; Ritchie & Lewis, 2003). Following this logic, my parents - who are both businesspeople and have well-established business networks in China - were asked to recommend enterprises which would be suitable to use as cases. They were able to find four businesses matching the sample criteria, that the enterprises should be small and medium-sized family-owned businesses located in the same province in mainland China. After receiving the list of enterprises, the owner-manager of each enterprise was contacted by telephone to explain the purpose and nature of this research, the criteria used for choosing the enterprise and the utilization of our results. They each agreed to be interviewed and an appointment was made with each of them. During this initial telephone conversation, they were also asked to recommend other enterprises that satisfied the sample criteria.

One difficulty encountered during the initial telephone interview was a communication problem. There are many dialects in China that are very different from each other. These dialects can be quite different from city to city even if they are in the same province. Mandarin is the official language in China but not everybody can speak it. The dialect in Zhejiang, where all the enterprises are located, is different from that of the dialect in my hometown. I was unable to understand the Zhejiang dialect. Thus, an additional criterion arose that the entrepreneurs to be interviewed had to be able to speak Mandarin. The enterprises that were initially interviewed recommended four other enterprises for inclusion in this study; however, two of them were not included in the sample due to the scale of their enterprises. Altogether, six enterprises are included in this study; all six enterprises are in same province but they are not located in the same city. Two of them are located in Ningbo; another two are in Wenzhou and the rest are in Cixi. They are all in the manufacturing sector.

For reasons of confidentiality and the reservations that family-owned business entrepreneurs had about participating in any fieldwork, respondents were given assurance that both they and their enterprises would remain anonymous in any written reports growing out of the study, and that their responses would be treated in the strictest confidence. Code names like "*Enterprise A*" would be used instead of actual company names; and the special sector that each enterprise belongs to would not be mentioned. However, the quantitative information such as the last annual revenue, the number of employees, founding date and the number of family members involved in the business would be precise. The profile of each enterprise is summarized in Table 8.

Table 8

Enterprises included in the sample

Case	**Sector of activities**	**NB of employees**	**Annual revenue ($CND)**	**Year of foundation**	**Ownership structure**	**NB of family members involved in enterprise**
Enterprise A	Manufacturing	41- 45	$0.92 million	1990	Sole proprietorship	2 (owner and her daughter)
Enterprise B	Manufacturing	50	$ 2.1 million	1996	Sole proprietorship	5 (owner, wife, daughter, son, daughter-in-law)
Enterprise C	Manufacturing	650	$31.3 million	1987	Sole proprietorship	5 (owner, wife and owner's three brothers)
Enterprise D	Manufacturing	40	$ 1.42 million	1996	Partnership	3 (owner, brother-in-law and owner's cousin)
Enterprise E	Manufacturing	130	$ 3.3 million	2003	Partnership	4 (owner and three brothers)
Enterprise F	Manufacturing	100 - 110	$ 10 million	1992	Sole proprietorship	3 (owner, wife and owner's younger brother)

3.4 Data collection

3.4.1 Data collection method

According to Yin (1994), six sources of evidence are primarily used for case studies: documents, archival records, interviews, direct observation, participant observation, and physical artefacts. Among these, the interview is an essential resource for case studies because of its flexible, interactive nature and the breadth and depth of the resulting data (Ritchie & Lewis, 2003; Yin, 1994). The interview is described as conversation with the purpose of gathering information (Webb & Webb, 1932, quoted in Ritchie & Lewis, 2003). It is a way to get rich and detailed data about how people view their worlds (Rossman & Rallis, 1998). Through an interview, the case study topic can be directly examined to obtain deep and extensive information (Ritchie & Lewis, 2003; Yin, 1994). Moreover, an interview permits us to explore all the factors which underpin respondents' answers, and thus the nature of the phenomenon being examined can be explored in depth. The objective of this study is to explore the characteristics of management models used in mainland small and medium-sized CFOBs. Because CFOB is a new phenomenon in mainland China and little published research has been conducted, a face-to-face interview was adopted as the data collection method in this research in order to gather the maximum information and achieve breadth and depth.

Based on the degree of structure of the interview, there are three types of interviews: 1) fully structured interviews, 2) semi-structured interviews and 3) unstructured interviews (Berg, 1998; Robson, 2002). By using a formally structured interview schedule, fully structured interviews intend to elicit respondents' own opinions and attitudes about the topic of research (Berg, 1998; Robson, 2002). Questions are generally fixed and are asked in a particular order (Mason, 2002). It is useful when many participants are interviewed because standardized questions help collect comparative data (Rossman & Rallis, 1998). Unstructured interviews, in contrast, are conducted without a scheduled set of questions. It is adopted when interviewers do not know what all the necessary questions are in advance (Berg, 1998). It allows interviewers to obtain additional information about the phenomena being explored during the process of interview by asking participants questions (Berg, 1998).

Semi-structured interviews, which fall between fully structured interviews and unstructured interviews, are described as a relatively informal interactional exchange of dialogue (Mason, 2002). Guided interview schedules with a number of predetermined questions or special broad topics are involved; however, interviewers have considerable freedom in question order, in the duration of the interview, in the way they express their questions, and the attention given to different topics (Berg, 1998; Mason, 2002; Robson, 2002). It is widely used in qualitative research (Mason, 2002; Robson, 2002) because its flexibility allows researchers to develop unexpected themes that participants bring in through the interactional dialogue (Mason, 2002; Rossman & Rallis, 1998), and, therefore, to achieve breadth and depth in the topic being explored. Considering these advantages, the semi-structured interview was appropriate for this research.

3.4.2 The process of data collection

An interview schedule with certain predetermined themes or questions is widely involved in guided semi-structured interviews (Berg, 1998; Robson 2002). As Berg (1998) suggested, the types of questions to be asked and the type of information expected to be obtained must be considered before an interview is conducted. Following the conceptual CFOBs management model developed in Chapter II, an initial list of relevant themes to be explored was developed. Next separate lists of questions, which were either open-ended or closed, were generated for each of the themes (see Appendix B). The purpose of formulating these questions was to become familiar with the type of information to be obtained through interviews. Considering the flexible nature of semi-structured interviews, a loose interview schedule with major thematic categories was developed as a guide for each interview (see Appendix C). Broad questions were asked in order to allow participants to talk freely and maximize the amount of information obtained. However, keeping the questions included in Appendix B in mind, certain questions in that list could have been asked during the interview process in order to ensure that all of the pertinent information was gathered.

After determining all the enterprises to be visited, a second telephone conversation was conducted with each of the owners. The research objectives, the interview duration, the themes included in the interviews and a few examples of questions that we would ask during the interview were discussed in detail. The date of each interview was confirmed through this telephone conversation. For reasons of confidentiality, and because of the reservations that family-owned business entrepreneurs had about participating in any fieldwork, confirmations of participation were made by telephone. No written letters were involved in this research and all respondents and their enterprise will remain anonymous in any written reports resulting from the study. These interviews were conducted through April 2007 to May 2007. All the enterprises interviewed are located in three different cities in Zhejiang province, which is in the southeast of China, far from my hometown. As repeatedly mentioned, it is unusual for Chinese entrepreneurs to take part in the fieldwork conducted by master students. Therefore, my mother accompanied me there in order to help ensure the candour of the interview process and gain frank and candid responses.

A face-to-face interview of one to two hours in duration was conducted with at least one person from each enterprise. The owner-manager of each enterprise was interviewed in her/his own office. In three of the enterprises that had a close relationship with my parents, other mangers such as a production manager, and a vice marketing manager were also interviewed. However, the interview schedule and questions used in these interviews were limited to a certain relevant theme. The information for each interview is summarized in Table 9.

Table 9

Basic information for each interview conducted

<table>
<tr><th>Case</th><th>Place where interviewed</th><th>Date of interview</th><th>Duration of interview</th><th>Number of people interviewed</th><th>Position of each person</th></tr>
<tr><td rowspan="2">Enterprise A</td><td rowspan="2">Ningbo</td><td rowspan="2">April 2007</td><td>1 1/2 hours</td><td rowspan="2">2</td><td>President</td></tr>
<tr><td>1/2 hour</td><td>Production Manager</td></tr>
<tr><td>Enterprise B</td><td>Ningbo</td><td>April 2007</td><td>1 hour</td><td>1</td><td>General Manager</td></tr>
<tr><td>Enterprise C</td><td>Cixi</td><td>April 2007</td><td>2 hours</td><td>1</td><td>President</td></tr>
<tr><td rowspan="2">Enterprise D</td><td rowspan="2">Cixi</td><td rowspan="2">April 2007</td><td>1 hour</td><td rowspan="2">2</td><td>President</td></tr>
<tr><td>1 hour</td><td>General Manager</td></tr>
<tr><td rowspan="2">Enterprise E</td><td rowspan="2">Wenzhou</td><td rowspan="2">May 2007</td><td>1 1/2 hours</td><td rowspan="2">3</td><td>President
Assistant General Manager</td></tr>
<tr><td>1/2 hour</td><td>Vice marketing Manager</td></tr>
<tr><td>Enterprise F</td><td>Wenzhou</td><td>May 2007</td><td>1 1/2 hours</td><td>1</td><td>President</td></tr>
<tr><td>Total</td><td></td><td></td><td></td><td>10</td><td></td></tr>
</table>

Interviews were conducted in Mandarin, which is the official language in China. Written field notes were taken during the interview process, and the interviews were recorded with the permission of interviewees. In order to keep confidentiality, we assured them that the information gathered through the interview would only be used to generate our results. Thus, the records were not transcribed word by word and were not translated into any other language besides Chinese.

It is important to control the quality of information gathered in qualitative research (Miles & Huberman, 2003). In order to address the potential problems of "construct validity", Yin (1994) suggested that multiple sources of evidence should be used in case study. By using multiple sources of evidence, researchers have the opportunity to take multiple measures of the same phenomenon, and consequently, have a deeper comprehension of the topic being studied. This is a major strength of case study data collection (Yin, 1994). Direct observation was used as a complementary method of data collection in this research. After the interviews, the enterprises' factory units were visited. Additional information about the company history was gathered during the guided tour of factory units. Organizational documents, such as management manuals, organizational charts and internal journals were also reviewed. Unfortunately, the copying of these documents was not permitted, and only field notes were taken during the visits.

3.5 Data preparation and data analysis

The word is the most common form of qualitative data; therefore, qualitative analysis is widely used in qualitative research (Miles & Huberman, 2003; Robson, 2002). Qualitative data analysis is viewed by Rossman & Rallis (1998) as the process of systematically organizing the data collected such as interview transcripts and field notes; bringing order, structure, and meaning to them; and writing the meaning down. It is a continuous and iterative process undertaken after fieldwork, and lasts until the final report is completed (Miles & Huberman, 2003; Robson, 2002). Six phases are identified by Rossman & Rallis (1998): organizing the data; familiarizing yourself with the data; generating categories, themes and patterns; coding the data; searching for alternative explanations of the data; and writing the report.

Data needs to be prepared before it is ready for analysis. As Miles & Huberman (2003) suggested, qualitative data, which is usually in the form of words, needs to be refined from raw notes or tape recordings into a clear text for analysis. Field notes are usually illegible and sketchy; they need to be converted into "write-ups" in order to recover any missing content. Similarly, taped recordings also need to be processed (Miles & Huberman, 2003). Data used in this research was primarily collected through face-to-face interviews. In other words, written field notes and digital recordings are the main source of data. Handwritten field notes were transferred into "write-ups" and digital recordings were transcribed into text on the day following the interview..

A relatively simple strategy was adopted to analyze our data because we were relying primarily on interviews. In order to organize and manage our data, "write-ups" and transcripts were kept in files identified by the enterprise's name. Within these files, folders were created according to the themes used in the interview schedule. After becoming familiar with the data, the segments of data were reorganized into those themes. This thematic organization of data from the entire interview was relied on when writing the final report. After this stage was complete, the data was ready for generating results and drawing conclusions. The results are presented and interpreted in the following chapter.

CHAPTER IV

PRESENTATION AND ANALYSIS OF THE RESULTS

CHAPTER IV

PRESENTATION AND ANALYSIS OF THE RESULTS

This chapter is to present the results obtained from the six mainland CFOBs that were interviewed. The profile of each enterprise will be briefly presented and the characteristics of the management model in these six mainland CFOBs will be discussed by synthesizing information gained from the interviews. The discussion is organized around the categories created in the data analysis: ownership, organizational structure, leadership style, general management, production management, financial management, marketing management, human resource management and the influence of Chinese culture and Chinese business networks. By doing so, any differences between the management model in these six mainland CFOBs and that of overseas CFOBs can be distinguished. Finally, the differences between these two models will be presented.

4.1 The profile of enterprises

4.1.1 Enterprise A

After graduating from high school in 1978, Mrs. Zhang, whom we interviewed, began to work in a factory in her hometown. One year later, her father established his first factory, which she and her brother both joined. Subsequently, she was in charge of sales and inspection activities. Three years later, her father set up another enterprise which manufactured a different type of product. Mrs. Zhang joined the new factory and took on an accounting position. Her brother stayed in the old factory and her father was the sole owner of both factories. In 1989, Mrs. Zhang's father decided to divide his factories when he and Mrs. Zhang's brother had more and more divergence on management style. He sold his first factory to an external buyer and retired. He transferred his second factory to Mrs. Zhang and her brother, giving each of them a fifty percent share. However, only one year later, Mrs. Zhang and her brother found that it was hard for them to cooperate. They decided to divide the property again. Mrs. Zhang's brother sold his 50 percent share to her and left. By doing so, Mrs. Zhang became the sole owner of the enterprise. At the end of 1990, Mrs. Zhang took over that enterprise. She changed the name of the enterprise and began to develop a new product.

At the time it was visited, *Enterprise A* was located in a three-storey building in Ningbo city. After over ten years of development, *Enterprise A* has developed its ability to produce high-added-value products. They only produce one type of product with various models, all of which have good market prospects. Most of their products are exported, and their products have been sold in more then ten countries and regions. However, due to their limited production capacity, they had only $0.92 million revenue in 2006. Mrs. Zhang, as we mentioned early, holds a 100 percent share and is the sole owner of this enterprise. As a small enterprise, they have 45 employees including the owner. Ninety-five percent of the employees come from the local labour market and none are members of Mrs. Zhang's family. Due to the bad experience when she worked with her brother, Mrs. Zhang said she did not want to hire family members in her enterprise any more.

The organizational structure of *Enterprise A* is relatively simple. Only three departments have been set up: a technical development department, a production department and a sales department. According to Mrs. Zhang, the functions of each department are clearly specified and have been written in the management manual; the authority and the responsibilities of each position are clearly defined, and are also written in documents. These documents are signed by employees when they are recruited. Mrs. Zhang is the general manager of *Enterprise A*. She has the power to control the enterprise's operations, and sets all policies. Certain responsibilities, normally production responsibilities, are delegated to other managers. Important decisions are generally made in meetings with other senior managers, but Mrs. Zhang holds the final decision-making right. She is in charge of finance and recruiting staff at the management level. She also takes the position of designing and developing company products. At the time of interview, no professional manager had been hired in *Enterprise A*. A general engineer, who took a technical manager position, was hired two years ago. He is in charge of new product development and quality control. The production manager, who assumes the responsibility of purchasing and daily production operations, has been promoted during his extended service in the enterprise. He has worked in *Enterprise A* for eleven years. Mrs. Zhang trusts him very much and she frequently includes his opinion in her decision-making. There is no manager in the sales department; a staff of five deals with daily affairs and work directly under the leadership of Mrs. Zhang.

"Quality first, the consumer reigns supreme" is *Enterprise A's* company principle. Mrs. Zhang is very proud of their ability to provide high quality products and perfect after-service to their clients at a reasonable price. Even though it is only a small enterprise, they have already obtained CE, ISO9001, and ISO13485 certificates and nearly 20 patents. E*nterprise A* is presently an original equipment manufacturer (OEM), but Mrs. Zhang wants the company to create its own brand. The limited production capacity is the main obstacle to their expansion. She is seeking a partner in order to obtain the necessary financing to expand her enterprise. Mrs. Zhang says that the expansion of her enterprise is more important for her than keeping family ownership.

Mrs. Zhang's only daughter is studying business in Australia and will graduate this year. She is currently helping Mrs. Zhang develop a market in Australia, even though she has not taken any formal position in *Enterprise A*. Mrs. Zhang hopes her daughter can take the position of sales manager after her graduation and take over the management of the company after she retires. However, Mrs. Zhang said: "It all depends on her wishes". Mrs. Zhang plans to transfer her responsibility for daily operations in two or three years. She plans to gradually sell a 30 to 40 percent share to her employees and transfer her responsibility for finance. If her daughter does not want to take over her business, she will promote a current employee who is qualified, or recruit a professional manager to operate her business. However, she would like to keep her position of designing and developing new products until she is sixty

4.1.2 Enterprise B

Eleven years ago, when Miss Huang, whom we interviewed, was still a college student, her father set up *Enterprise B* and began to manufacture a few types of textile and hardware parts. At that time, *Enterprise B* had a staff of eight. Miss Huang's father and mother took on all management responsibilities. Her father was in charge of production, while her mother took the position of accounting. Two years later, Miss Huang and her younger brother joined the factory when she graduated from college. Miss Huang took the position of marketing; her brother worked with his father managing production. Soon after, Miss Huang suggested developing new products to her father when the market prospects for their products became worse. This suggestion was discussed in a family meeting and they decided to manufacture machine parts and accessories. Miss Huang borrowed four instrument machines from a friend and they began to produce simple machine parts. After eleven years of development, *Enterprise B* has developed its ability to produce various products. In 2006, *Enterprise B* was relocated to an economic development zone in Ningbo city. Miss Huang registered a new business name in order to expand the range of their business activities. At the time of the interview, the factory unit of *Enterprise B* was twice as large as it was before. *Enterprise B* has become a professional manufacturer of tool and machine parts and accessories. They are now manufacturing over 40 kinds of products, which can be divided into five categories. Because their products are low-value-added, the unit price of their products is low. In 2006, *Enterprise B* held an annual sale turnover of $ 2.1 million.

Presently, *Enterprise B* has a staff of fifty; most of them are workers. All of the management positions are filled by family members. Miss Huang's father enjoys 100 percent ownership and remains the president. All of the employees, including family members, are paid by salary. A bonus is given to family members at the end of each year, but they do not own any share of the company. Miss Huang's father assumes the position of final decision maker, but he is no longer involved in the daily operations. Miss Huang's mother is still in charge of finance, but an accountant has been hired temporarily to keep accounts in the last week of each month. Her mother also assumes the position of quality assurance director. Miss Huang is the general manager of *Enterprise B* and she is also responsible for marketing. Her younger brother assumes the position of production manager. The jobs and responsibilities of Miss Huang and her brother are clearly defined. According to Miss Huang, she is mainly in charge of external affairs such as maintaining good relationships with suppliers, developing new clients, requesting orders, collecting overdue payments, etc. In contrast, her younger brother is responsible for internal affairs such as arranging production plans, supervising production, shipping, etc. Miss Huang's sister-in-law also works in *Enterprise B*, but she does not hold any management position. Most of the time, she does jobs related to inventory receiving and customer reception. However, Miss Huang said she can help in any department when it is necessary.

Enterprise B has a simple and informal organizational structure that is focused on production. As previously mentioned, Miss Huang's family takes complete responsibility in running the business and they do not employ any professional managers. Miss Huang says that a small business does not require a formal management system. *Enterprise B* has a narrow-span management structure. Top management receives reports directly from the workers' leader. Additionally, Miss Huang's mother and younger brother go to the workshop daily to talk with employees, which makes it easier for them to receive information directly from subordinates. Although the authority and responsibility of each position are clearly defined, they remain flexible. Miss Huang says she will take her younger brother's responsibilities temporarily if he is not in the factory. Major decisions are made in family meetings with friendly discussion. Generally, her mother's opinions are an important basis for financial decision making while marketing decisions are strongly influenced by Miss Huang's opinions. Her father makes most decisions about hiring key employees, and he drafts business plans for the future of the business. Her younger brother dominates in making production plans and purchasing decisions. An engineer has recently been recruited to help her younger brother ensure product quality and develop new products. At present, *Enterprise B* does not hire any outside employees in the marketing department. Miss Huang says that because their products can be easily copied, they have to avoid the risk that outside employees may take away their current customers if they quit their job.

Concerning their future strategies, Miss Huang says that she plans to expand and export their products. She is not satisfied with their current market share. According to Miss Huang, owing to the nature of the products, their production is highly dependent on customers' requirements. As a result, the market for their products is unstable. Additionally, their profitability per unit is very low because all their products are low-value-added products. Therefore, she also wants to develop new high-value-added products in the future. Family ownership is extremely important for Miss Huang and her family. According to Miss Huang, they will keep family ownership in any situation. Presently, they do not have a detailed succession plan, and Miss Huang's father still owns a 100 percent share even though he is no longer involved in the daily operations. Miss Huang says that they have reached an agreement: *Enterprise B* will be divided into two when her father retires, and both she and her brother will receive one part. However, so far, they are satisfied with the current cooperative running of *Enterprise B* and they have no plans to change the situation.

4.1.3 Enterprise C

Enterprise C began as a township enterprise. In 1987, during the last wave of privatization of Chinese rural enterprise, Mr. Yu, whom we interviewed, purchased the enterprise at a very low price. When Mr. Yu took control, *Enterprise C* was a small run-down factory with a few old machines that had to be disposed of. Seeing the opportunity to produce small plastic products, Mr. Yu bought an old manual injection machine and some raw material and then began to produce plastic components for medical instruments. At that time, Mr. Yu and two of his relatives were the only employees in the factory. They worked together as partners. After three years' hard work, they completed their initial capital accumulation and their factory began to take shape. A turning point occurred in 1995 when Mr. Yu's partners wanted to leave the factory and establish their own enterprise. Mr. Yu purchased their share and let them take away some customers. By doing so, Mr. Yu became the sole owner of the enterprise. He registered a new name for his enterprise in 1996 and then switched to manufacturing electric products. He focused on developing new products and new clients in the following few years, and then *Enterprise C* entered a rapid growth phase. Two branch factories were established in 1999 and 2001. They began to export their products in 2003, and today *Enterprise C* is an enterprise with rich experience in research, production and sales. Their products have obtained many safety standard certificates and have been exported to over twenty countries and regions. In 2006, *Enterprise C* had an annual sales turnover of 31.3 million Canadian dollars.

Presently, *Enterprise C* is located in an industrial development zone in Cixi city and covers an area of 120,000 square meters. Mr. Yu is the president of the enterprise. Although he set up the enterprise on his own, he now has 80 percent ownership. A twenty percent share has been given to five relatives who work in his enterprise and hold key management positions. According to Mr. Yu, he will give a certain percent share to some key employees or someone he desires to hire in future. However, he will keep at least a 51 percent share in order to keep the position of final decision-maker. Presently, *Enterprise C* has a staff of 650. Among them, fewer than ten people are family members of Mr. Yu's family, but they all hold top management positions. Mr. Yu's wife is in charge of finances. There are two branch factories, and each factory is managed by one of his brothers. The general manager, who is Mr. Yu's older brother, is responsible for production and development of new products. The decision-making right is held tightly in the hands of Mr. Yu. Important decisions, such as investing in a new project, or the arrangement of key personnel, are made by Mr. Yu himself.

In 2001, Mr. Yu implemented the quality control system of ISO9001: 2000 in *Enterprise C*. Organization structure has been set up according to the standards of this quality control system, which is relatively complex. However, the organizational structure is still informal and job specifications have not been clearly defined. The daily operations still do not meet the requirements of the quality control system. Currently, a management consultant has been hired to help set up a formal organizational structure. Training courses are given to senior managers in *Enterprise C* once a week. The authority and the responsibilities of each position are in the process of being clearly defined, and job specifications are in the process of being standardized.

Mr. Yu says that he does not have a detailed strategy for future development. The market share of the current products is stable. They receive sufficient orders each year, so Mr. Yu does not intend to expand their market. Because most of the currents products are low technology content products that are only profitable in mass production, Mr. Yu is thinking about developing high-value-added products or investing in a new industry. However, he still cannot make any decision due to the high risk of investing in new projects. Mr. Yu was only forty-two years old when he was interviewed. His only son is a high school student, and he has not yet planned for succession. According to him, he will not force his son to take over this enterprise; whether or not his son succeeds him will depend on his son's interest.

4.1.4 Enterprise D

Mr. Chen established *Enterprise D* in 1996. According to him, *Enterprise D* was founded by chance. Before establishing his own enterprise, Mr. Chen, who was interviewed, was a worker in a small factory. At that time, he never thought that he would set up his own business. The opportunity came in 1995 when he accompanied his friend to visit a customer. During the visit, Mr. Chen learned that this customer wanted to subcontract some components of his products and Mr. Chen recommended himself. After receiving the design drawings for the product, Mr. Chen asked his brother-in-law, who had a small enterprise, to help him produce the sample. After finishing the evaluation of the sample, the customer placed the first order and promised to place continual orders for the following three years. Due to the lack of initial capital, Mr. Chen asked his brother-in-law to cooperate with him, and being interested in the stable orders for the product, Mr. Chen's brother-in-law decided to become his partner. In 1996, they hired three workers and started production. Although the development of *Enterprise D* is slow, it is sustained and stable. According to Mr. Chen, *Enterprise D's* scale is limited because of the lack of a high-profit product and limited production capacity. At the time of the interview, *Enterprise D* had 40 employees including the owners. In 2006, it had an annual sales turnover of 1.42 million Canadian dollars.

Enterprise D is a partnership in which Mr. Chen holds the position of factory director and has 60 percent ownership. Holding 40 percent ownership of *Enterprise D*, Mr. Chen's brother-in-law is the other owner. He has the position of vice factory director. Up to now, no professional managers have been recruited. Mr. Chen and his brother-in-law hold the only two management positions in *Enterprise D*. The authority and responsibilities of their jobs are clearly defined. Mr. Chen has complete responsibility for marketing, while his brother-in-law is in charge of production. Specifically, Mr. Chen's duty is to acquire sufficient orders and his brother-in-law's responsibility is to produce quality products on time. They almost never interfere in each other's field. Most of the time Mr. Chen is not in the factory, so his brother-in-law is in charge of the daily management. Mr. Chen assumes the position of final decision-maker in finances. Only Mr. Chen and his brother-in-law know the real financial situation of *Enterprise D*. Aside from the two owners, there is one other family member working in *Enterprise D,* Mr. Chen's cousin, who is in charge of inventory.

The organizational structure is simple in *Enterprise D*. The vice factory director directly manages the three workshops. No other departments have been set up. In 2005, *Enterprise D* obtained ISO certification. However, according to Mr. Chen, a quality management system is not practical in a small enterprise such as *Enterprise D*. The only reason for doing so is to meet customer requirements and obtain "market approval".

Mr. Chen has a detailed plan for the future development of *Enterprise D*: the first step is to expand production capacity for the current products. Last year, his most important customer, who is also his good friend, lent him a new manufacturing machine. Production efficiency obviously has been raised. If there are enough orders for 2008, Mr. Chen plans to purchase this machine from his friend. By doing so, the production of *Enterprise D* can be doubled in 2008. The second step is to invest in new products. According to Mr. Chen, the current products are downstream products in the industry chain, and per unit profits are low. Due to the low technical content, their products can be easily copied by others. The only reason that they have advantages over other companies is that they have advanced machinery that can manufacture high quality products that other competitors cannot match. In order to keep their advantage, they have to develop middle stream products or upstream products, which have higher technical content and are not easily copied. The current obstacle is that he has not found a suitable project. He says that he is quite market driven. Once he finds a product with good market prospects, he will invest in it. Mr. Chen is in his thirties. His two daughters are still very young, one is eight years old and the other is only four years old. So far, he has no plans for succession. He believes that it is not necessary for his children to take over *Enterprise D.* He prefers the growth of enterprise to family ownership. As he says, anybody can take over the company if it is good for the development of the enterprise.

4.1.5 Enterprise E

After working in his uncle's enterprise as a sales manager for over ten years, Mr. Wu, whom we interviewed, accumulated rich experience in running a business and he wanted to be his own boss. He quit his job in 2003 and established *Enterprise E* in July 2003, which produces the same products as his uncle's enterprise. In order to help him set up the enterprise, Mr. Wu's uncle, for whom he worked before, not only invested money in *Enterprise E* but also shared some of his own orders with Mr. Wu. One year later, Mr. Yang, who was Mr. Wu's ex-colleague and held the position of quality control manager, came to help him manage the production. After that, *Enterprise E* enjoyed stable growth for the following two years. At the time of the interview, Enterprise *E* was located in Wenzhou city and had a staff of 130. Its capacity has reached over 25,000,000 units annually. ISO/TS 16949 International Quality System was implemented in *Enterprise E* in 2004. The products sell well to South America, Southeast Asia, Western Europe and other regions such as Taiwan and Hong Kong. In 2006, *Enterprise E* generated annual revenues of 3.3 million Canadian dollars.

As a partnership firm, Mr. Wu holds 35 percent ownership and he is the largest shareholder in *Enterprise E*; he is the president and general manager of *Enterprise E.* His uncle, with whom he has worked for over ten years, has 30 percent ownership. Three of Mr. Wu's brothers together have 20 percent ownership. However, they did not invest any money in *Enterprise E.* They each hold a key position in the enterprise. Mr. Wu's oldest brother has the responsibility of quality control, while the two younger brothers are in charge of inventory. Mr. Yang, who was also interviewed, is the assistant general manager of *Enterprise E.* He is Mr. Wu's ex-colleague. He was in charge of quality control when he worked in Mr. Wu's uncle's enterprise. Another family member, a nephew of Mr. Wu's wife, works at *Enterprise E* as vice sales manager. Mr. Wu's wife and his children are not directly involved in *Enterprise E.* Mr. Wu believes that it is hard to maintain family harmony if close family members work together, as conflicts in business sometime will lead to conflicts in the family. Mr. Wu's oldest daughter works in an enterprise of which Mr. Wu is the largest shareholder in Shenzhen, which is a city in southern China. Both the general manager and technical manager of that enterprise are outsiders who have been given partial ownership. However, Mr. Wu cannot completely trust them so his daughter works there in order to control the financial situation, monitor the daily operations and gain the necessary experience of management as well.

The organizational structure has been designed according to the standards of the ISO quality management system. Six departments have been established: production, quality control, technical support, purchasing, sales and general affairs. Important decisions are usually made in a meeting with all senior managers. The meeting, which is called a management review meeting, is regularly scheduled for the end of each year, and is held as deemed necessary. Important decisions, such as next year's strategy, investments in a new project etc. are discussed and are decided upon in these meetings. Mr. Wu assumes the position of final decision-maker. Most of the financial decisions and the recruitment of key management positions are made by Mr. Wu himself. As he says, there can be only one person in each enterprise who has the right to make the final decision; he is the person in *Enterprise E.* As the assistant general manager, Mr. Yang is in charge of daily operations. Mr. Wu trusts him very much since he has worked with Mr.

Wu for a long time.

Enterprise E has only a three-year history and is still in its initial stage of development. For such a young enterprise, according to Mr. Wu, it is impossible to set a long-time strategy for development. His current plan is to increase the output by 20 percent each year. Presently, the price fluctuation of copper is the main obstacle to the growth of *Enterprise E* because copper is the primary material used in its products. The company has seen the price of copper increase by a large margin in the previous two years. If the price had not risen that much, *Enterprise E* would be twice as large as it currently is. Mr. Wu does not have any plans for succession. Profits are more important for him than keeping family ownership. According to him, keeping family ownership is an issue important only for owners of larger enterprises.

4.1.6 Enterprise F

According to Mr. Zhang, whom we interviewed, people in his hometown - Rui'an have a strong entrepreneurial spirit; most people there want to be their own boss. As one of them, Mr. Zhang started his business plan when he was still a high school student. He noticed that most enterprises in his hometown at that time were micro family-owned workshops with fewer than five employees. He decided to start his business in the same way. In 1989, after graduating from high school, he bought three old machines with money he borrowed from his friends and started production. At the beginning, there were only four employees including himself in his workshop. Three years later, after accumulating enough capital and management experience, Mr. Zhang registered *Enterprise F* under his own name. The turning point occurred in 1997 when Mr. Zhang met a purchasing representative from Matsushita Electric (China) Co., Ltd.

Shanghai Branch at a China import and export Fair (Canton Fair). Due to the high quality and reasonably priced products, *Enterprise F* became a supplier of Matsushita Electric (China) Co., Ltd. Shanghai Branch. During the first year of their cooperation, engineers of Matsushita Electric (China) Co., Ltd. visited *Enterprise F* once a month to help them improve the management level and solve technical problems. With their help, the management expertise, the quality of products and the production capabilities of *Enterprise F* have all improved. Presently, *Enterprise F* is the supplier of many large foreign companies' branches in China. *Enterprise F* relocated to Wenzhou city in 2002 where the new plant occupies 15, 000 square meters. *Enterprise F* passed the ISO9001-2000 international quality management system attestation in the same year. In order to improve the international competitiveness of its products, *Enterprise F* successively passed SGS, ISO 14001:2004 environment management system attestations in the following two years. At the time of the interview, *Enterprise F* had established a system of effective quality assurance according to these standards. Its products have been exported to more than ten countries and regions including the U.S.A, Japan, Germany, the Middle East, Taiwan, Hong Kong, etc. Presently, *Enterprise F* has approximately 110 employees, including 20 professional personnel. In 2006, *Enterprise F* had a sales turnover of ten million Canadian dollars.

As a single-investor enterprise, Mr. Zhang holds 100 percent ownership of *Enterprise F*. There are only three people who hold management positions in *Enterprise F*. As Mr. Zhang says, the jobs and their responsibilities should be flexible in a family-owned enterprise. If one is qualified, one can do various tasks in different fields in order to reduce management cost. Mr. Zhang is the factory director of *Enterprise F* and is in charge of marketing and human resource management. His wife is the vice factory director, who takes responsibility for production and quality control. An outside technical manager was hired after *Enterprise F* established the quality control system in 2002. He is the only outside manager in *Enterprise F*. An accountant is hired to keep the books in order; however, she does not have the authority to make any financial decisions involving amounts over one thousand Canadian dollars. Aside from Mr. Zhang and his wife, there is one other family member working in *Enterprise F*. He is Mr. Zhang's younger brother and is in charge of inventory. According to Mr. Zhang, it is better if the enterprise employs few family members. "It is not easy to manage family employees due to the family relationship." The organizational structure is simple and informal in *Enterprise F* with the functions concentrated on production. It does not have a complete set of rules and systems. Only three departments have been established: production, quality control management, and technical support. Job specifications are imprecise and the roles of various posts are not clearly assigned. Senior managers deal in a range of activities across a number of fields. Mr. Zhang makes almost all decisions by himself. His wife has the responsibility for daily operations because he is not in the factory very often.

Concerning the strategies for the future, Mr. Zhang says: "I prefer stable development to quick expansion". He plans to purchase new advanced manufacturing equipment from Japan or Switzerland in one or two years in order to establish an automated production line. According to Mr. Zhang, by doing so, the number of employees can be cut down to fifty while doubling the output. Currently *Enterprise F* is looking at e-business for new ways to meet customers' requirements. Mr. Zhang says that the development path of *Enterprise F* has been made through the meeting customers' requirements. A primary difficulty that *Enterprise F* has is recruiting qualified professional managers. According to Mr. Zhang, "outside professional managers are not interested in working in a family-owned business due to the existence of nepotism in most family-owned businesses". So far, Mr. Zhang has no plans for succession. It is not necessary for him to keep family ownership.

4.2 The characteristics of the management model in the six mainland CFOBs

4.2.1 Ownership

As can be seen in Table 10, family ownership is prevalent in all six enterprises. The enterprise ownership tends to be controlled by a single family. Among them, *Enterprise A, Enterprise B,* and *Enterprise E* are all sole proprietorship enterprises. The sole owner, who is generally the founder of the enterprise, enjoys 100 percent ownership. *Enterprise C* is regarded by the president as a sole proprietorship enterprise even though five other shareholders exist in the enterprise. Mr. Yu, who is not only the founder but also the actual president of *Enterprise C,* has 80 percent ownership. The other 20 percent share of ownership has been donated to the five family members who work at his enterprise. According to Mr. Yu, "if your relatives help you work in the enterprise, a certain percentage of ownership shares should be donated to them as reward. They are your family members so that you can never treat them only as employees." However, the ownership structure in *Enterprise C* is not clearly defined. Mr. Yu's five family members together own a 20 percent share, but the percentage that each person owns is not clearly defined. The ownership is more like an oral promise than formal ownership, and Mr. Yu is the actual sole owner of *Enterprise C. Enterprise D* and *Enterprise E* are partnership enterprises. The ownership structure of *Enterprise D* is very simple. Mr. Chen owns 60 percent, while his brother-in-law holds the other 40 percent. This percentage has not been changed since *Enterprise D* was established. *Enterprise E* has an ownership structure similar to that of *Enterprise C*, and it is not clearly structured. Mr. Wu, the majority shareholder of *Enterprise E* owns a 35 percent share and his uncle holds 30 percent. Mr. Wu's assistant has a 15 percent share even though he has not invested money in the enterprise. The remaining 20 percent ownership has been given to Mr. Wu's three brothers, who work for him. This 20 percent ownership is similar to that of *Enterprise C*, as the individual ownership percentages have not been clearly defined.

Table 10

The characteristics of ownership in the six cases studied

Enterprise A	• Sole proprietor: the founder holds 100% ownership
Enterprise B	• Sole proprietor: the founder holds 100% ownership
Enterprise C	• Sole proprietor • The founder holds 80% ownership • The other 20% has been donated to five relatives
Enterprise D	• Partnership • Mr. Chen holds 60% ownership • Brother-in-law holds the other 40%
Enterprise E	• Partnership • President holds 35% ownership • His uncle has 30% ownership • Assistant general manager holds 15% ownership • Three brothers of the president together share the remaining 20%
Enterprise F	• Sole proprietor: the founder holds 100% ownership

Family savings and/or capital borrowed from friends are the primary resources that are used to establish the enterprises. Owing to limited family savings, all of the six enterprises, except *Enterprise E,* started with very little capital and fewer than 10 employees. In the case of a lack of family savings, establishing a partnership enterprise is the most common way to start a business. However, as the president of *Enterprise C* said, "due to the strong entrepreneurship, as long as the partners accumulate enough capital and experience, they will divide up the partnership enterprise and then each of them will start his own. Here, in Zhejiang province, almost every family has its own family-owned business; everyone wants to become his own boss."

Due to family ownership, CFOBs tend to be viewed as the private property of the owner's core family. In the owners' mind, a loss in the business is a loss in their personal wealth. Therefore, all the owner-managers interviewed are extremely cautious when they invest money in the enterprise and they prefer slow but stable growth to quick expansion. As Mr. Yu says, "each penny lost in the business is from my pocket; therefore, I have to be very careful when making financial decisions." Moreover, Mr. Yang, assistant general manager in *Enterprise E* and Mr. Yan, production manager in *Enterprise A* argued that it was not only the owners, but also the employees in the enterprise who considered that the enterprise was the owner's family asset. Mr. Yang and Mr. Yan are the only two outside managers interviewed in this study. They all indicate that non-family employees usually feel that they will never become real members of the enterprise. "Many employees have a strong feeling that the enterprise is the owner's private property; they work hard to help the owner accumulate his own wealth. Consequently, the motivation of employees in CFOBs is low and few of them have a strong sense of responsibility towards the enterprise" says Mr. Yang.

Concerning financial issues, family matters are distinguished from business matters in daily operations, even though all the owner-managers interviewed regard their enterprises as family assets. According to Mr. Zhang, the factory director of *Enterprise F*, the enterprise's capital is no longer mixed up with personal capital. There are regular plans for business capital so that family members cannot take money from the enterprise as they please. Family members working in the enterprise are paid by salary, even for those who hold key management positions, but they receive an extra bonus at the end of each year. Generally, family members do not work for monetary compensation due to the family ownership. In contrast, family capital can be injected into the enterprise when it is needed. To maintain family ownership is no longer the most important objective of CFOBs. Among all the six enterprises, only the interviewee from *Enterprise B* indicates that to maintain family ownership is absolutely important for her and her family. As Miss Huang says, her family is unwilling to share ownership with non-family members. They will maintain family ownership in any situation even if it will restrict the growth of the enterprise. The owners of other five enterprises prefer the growth of enterprise to family ownership. They all indicate that they are willing to share ownership with outsiders if it proves beneficial to the development of the enterprise. The viewpoint of Mr. Wu, who is the president of *Enterprise E*, is quite interesting and should be mentioned here. He says that it is not necessary to keep family ownership when the enterprise is small. To maintain family ownership is only an issue for large family-owned businesses.

4.2.2 Organizational structure

Organizational structure reflects the degree to which a business is organized. According to Redding (1993) and Chen (1995a), certain dimensions that are generally used to describe the organizational structure are centralization, specialization, standardization, and formalization. In this section, the organizational structure of the six CFOBs studied will be described from these major dimensions. Generally speaking, the data gathered from the interviews leads to the conclusion that the organizational structure of the six CFOBs interviewed can be characterized by high centralization, low role specialization, imprecise job specifications, relatively unstructured and varied in size (as shown in Table 11 below).

Table 11

The characteristics of organizational structure in the six cases studied

	Organizational structure
Enterprise A	• Small scale with a staff of approximately 45 • Relatively formal vertical organizational structure • Beside the production and technical departments, a sales department has been developed; the functions of each department are specified • Written job descriptions are clear but not strictly followed
Enterprise B	• Small scale with a staff of 50 • Simple flat organizational structure with few levels of hierarchy, • Concentrates its function on production with all the departments related to production; the functions of departments are specified by the process of manufacturing • Does not have clear-cut job descriptions
Enterprise C	• Large scale with a staff of 650 • Organizational structure is still unstructured but is in the process of becoming formal and standardized • Aside from the production and technical departments, a sales, general affairs, and financial departments have been developed • Written documents explain the functions of departments and job specialization
Enterprise D	• Small scale with a staff of 40 • Simple flat organizational structure with few levels of hierarchy • Concentrates on its production function, all of the departments are related to production and the functions of departments are specified by the process of manufacturing • Job specifications are relatively clear
Enterprise E	• Relatively large scale with a staff of 130 • Relatively formal (although somewhat loose) vertical organizational structure • Written documents explain the functions of departments and job specializations but do not have clear-cut job descriptions • The functions of each department are clear and slightly flexible
Enterprise F	• Relatively large scale with a staff of approximately 110 • Simple flat organizational structure with few levels of hierarchy • The functions of departments are specified by the process of manufacturing • Does not have clear-cut job descriptions

The business scales of the six enterprises vary—they are not all small in size, and they have a large variation in the number of employees. The number of employees in

Enterprise A, Enterprise B and Enterprise D are all less than fifty. However, both *Enterprise E* and *Enterprise F* have a staff of over one hundred; *Enterprise C* has a large number of employees, employing 650 people. One fact that needs to be mentioned is that the percentage of employees who are directly involved in producing the output is rather high. For example, in the case of *Enterprise C*, there are only 25 employees who are involved in management even though it has a staff of 650. In all the six cases, over 90 percent of employees are manual workers. This is because of the lack of advanced manufacturing equipment and/or the labour-intensive nature of products that they manufacture. All the owner-managers interviewed plan to expand production capacity over the following few years; however, they intend to maintain or reduce the current number of employees in order to reduce the cost of production. As Mr. Zhang, who is the factory director of *Enterprise F* says, "the number of employees has been reduced twice in the last two years. I plan to establish an automated production line in one or two years. When it is established, only half of the current employees will be needed, but the output will be doubled."

Concerning organizational structure, the owners interviewed have different opinions. The owners of *Enterprise B, Enterprise D* and *Enterprise F* say that due to the small scale of their enterprises, they do not need to design a formal organizational structure in their enterprises. Simple flat organizational structures with few levels of hierarchy have been designed in these three enterprises, which concentrate on production. Only departments directly related to production have been developed in these three enterprises.

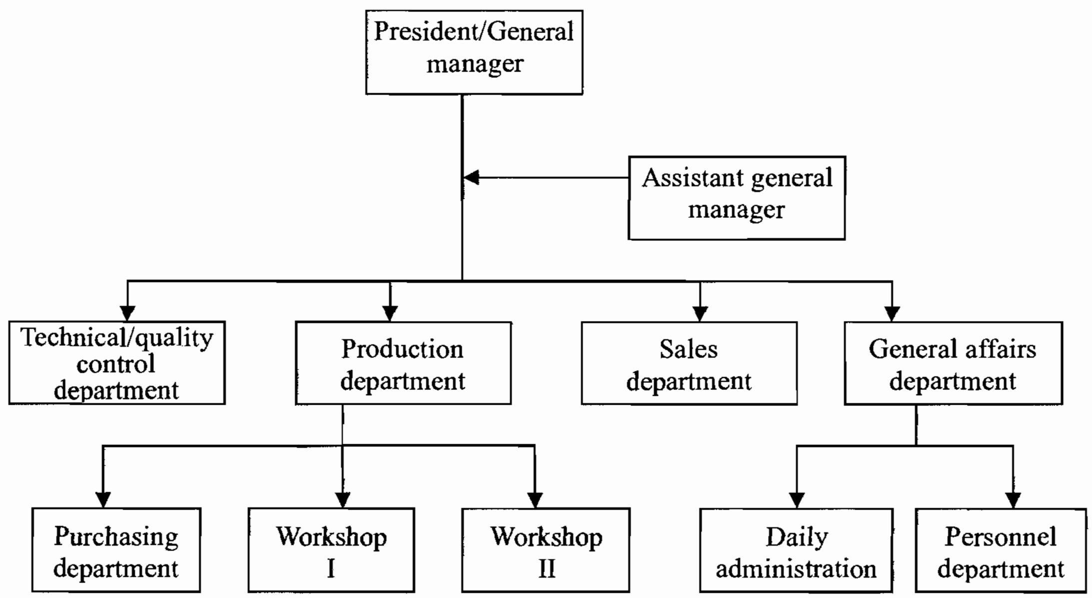
The owners of *Enterprise A* and *Enterprise E* stated that a vertical organizational structure, which is relatively formal, has been established in their enterprises but it is not strictly followed in daily operations. Hierarchical organizational charts have been designed which follow the standards of modern enterprise. However, owing to their small scale, they still do not have ancillary departments which are not directly related to profit making, such as labour relations, public relations, and market research. *Enterprise C* is the largest enterprise in our sample but its organizational structure is still considered informal. As Mr. Yu said, "Organizational structure in my enterprise is still simple and unstructured, which is similar with that in most mainland CFOBs. This informal structure has many advantages when an enterprise is small. It is still effective because it is helpful for maintaining flexibility in production and making quick responses to market change. However, I found this informal structure have brought many problems into the organization. I have hired a management consultant to help me design a formal organizational structure. My enterprise is in the process of becoming formal and standardized."

Figure 3 illustrates a typical organizational structure in the six CFOBs studied. It starts with the owner or majority shareholder, who usually holds the position of president or general manager. A few departments follow as the second level of organization, and department managers are generally under the direct leadership of the owner, or sometimes beneath the assistant general manager. Several sections and/or workshops are designed as the third level of organization and also the bottom of the organization. It can be seen from data collected that the production department and the technical department (sometimes called the quality control department) are the basic departments that have been developed in all six enterprises since they are all in the manufacturing industry. As Mr. Chen, the majority shareholder of *Enterprise D*, stated: "these two departments are essential in a manufacturing organization." Sales departments have been developed in *Enterprise A, Enterprise C* and *Enterprise E.*

However, no sales manager has been hired in *Enterprise A*; the owner herself takes this position. A general affairs department has been developed in *Enterprise C* and *Enterprise E*. This department is in charge of daily administrative affairs, and has a similar function to that of a human resources department in a modern corporation. *Enterprise C* is the only case in the sample where a financial department has been developed. However, the authority of the financial manager is very limited, and he has no authority to make decisions involving over one thousand Canadian dollars.

Figure 3

A typical organizational chart in the six cases studied



It can also be concluded that the degree of specialization, standardization and formalization is low in all six cases. In general, there are no formal systems of regulation in the enterprises. The function of each department is relatively well specified, but the duty of each position is not well defined and the working procedures are not standardized. This is true in all of the cases with the exception of *Enterprise A*. Mrs. Zhang stated that the function of each department is specified and has been written in the management manual. Written job descriptions are clear with the authority and responsibility of each position being clearly defined. This job description is presented to new employees and needs to be signed when he/she is hired. Written documents explaining the function of departments and job specialization exist in *Enterprise C* and *Enterprise E*; however, they have not been strictly followed. The president of *Enterprise E* said: "the function of a department needs to be clear to external people, but it can be flexible inside the enterprise. I do not care about any regulation or formalization. What I seek is the flexibility of the organization and quick decision-making." In the cases of *Enterprise B, Enterprise D* and *Enterprise F*, all three interviewees indicated that department functions are specified because all the departments have been divided according to the manufacturing process.

The degree of job specialization is extremely low in all six enterprises. The authority and responsibility of each position are said to be clearly defined, but this clear role definition is often only confined to workers. In fact, there are no clear-cut job descriptions for management positions. The responsibilities of individual employees tend to be decided by the owner according to the needs of the situation. This is more obvious in cases where family members hold the management positions. Even though the work and individual responsibilities have been divided, one can take another's position when it is necessary. For example in *Enterprise B*, Miss Huang can temporarily take her brother's position as production manager when he is not in the enterprise, while her sister-in-law can work in any department if it is needed. Another example is *Enterprise F*: Mr. Zhang said that he tends to hire fewer people in management level; he prefers to make maximum use of personnel. He said: "Paying a high salary to a qualified manager who can take several positions is better than hiring more personnel and paying a low salary to each of them. The more mangers you hire, the more difficulty you have to manage the enterprise." The only exception is in *Enterprise D*, where, as Mr. Chen says, he and his brother-in-law have a clear division of responsibilities, and they almost never interfere in each other's field.

4.2.3 Leadership style

Owners of all the six CFOBs interviewed assume a paternalistic leadership style, and they tend to run their enterprises like their family. All the owners interviewed indicated that they aim to create a harmonious, family atmosphere in their enterprises. In order to increase the cohesiveness of the enterprise, they treat their staff like their family and exhibit a strong sense of responsibility towards their employees' welfare. They all believe that employees are the source of wealth creation in the enterprise. As Mr. Yu said, "employees serve you well if you look after them; if you look after your employees eventually you look after yourself." A typical example is in the case of *Enterprise D.* Mr. Chen said: "I have a small staff of forty in my enterprise and I treat all of them like my family members. I always try my best to meet their demands and help them solve their problems. As most of my employees are not from the local labour market, they are generally alone in this city. Therefore, I serve meals to them each day for free in order to facilitate their daily life. Extra gifts are given to all the employees at holidays according to the local customs. My entire staff has dinner with me at the end of each year on the day before Spring Festival. It is just like a family reunion dinner." Mr. Chen said that he tries to provide his staff with the best welfare. "My objective is to provide my employees with the best welfare and the highest salary in this city. I would like to become the best employer among all the enterprises which are on the same scale as mine in this city."

said Mr. Chen.

In line with the paternalistic leadership style, subordinates are not normally discharged because of unsatisfactory performance. One example is in the case of *Enterprise A*. Mrs. Zhang says that she has a "motherly" leadership style, and that she is quite tolerant towards her staff. She said: "I will not fire anyone simply based on unsatisfactory performance. It is not easy to find a qualified worker and all my staff has been well trained. I do not want to lose even one if it is not necessary. I often conduct a talk with the employee who has poor performance in order to find out the causes of his/her poor performance. If he/she has personal difficulties, I will try my best to help him/her. If he/she feels that he/she is not fit for the current position, I will think about his/her opinion and assign him/her to another job." This style is also applicable in *Enterprise B, Enterprise D* and *Enterprise F.*

Leadership style can also be characterized as authoritarian in the cases of *Enterprise C, Enterprise E* and *Enterprise F.* The owner-managers of these three enterprises maintain a large power distance in their enterprises. They think that they should not be openly challenged by their subordinates. They tend to make important decisions by themselves and subordinates have to follow the decisions without question. As the president of *Enterprise C* says, he has absolute power in the enterprise. He makes most of the decisions through discussions with close friends. "I am the boss of the enterprise so I have the right of final decision-making. Once I make the decision, nobody can say no to me." said Mr. Yu. One interesting fact that needs to be mentioned here is that male entrepreneurs tend to have an autocratic leadership style. Interviewees from *Enterprise A* and *Enterprise B* are the only two women entrepreneurs in our cases. Both of them clearly argued that their leadership styles are not autocratic. It is not necessary for them to maintain power distance, and they like to make decisions by discussing things with the senior managers in their enterprises. The characteristics of leadership style in all the six enterprises interviewed are synthesized in Table 12 below:

Table 12

The characteristics of leadership style in the six cases studied

	Entrepreneur's Gender	***Leadership style***
Enterprise A	Female	• Paternalistic • Creates a family atmosphere in enterprise • Does not lightly dismiss poor-performance employees
Enterprise B	Female	• Paternalistic • Creates a family atmosphere in enterprise • Does not lightly dismiss poor-performance employees
Enterprise C	Male	• Paternalistic • Creates a family atmosphere in enterprise • Authoritarian
Enterprise D	Male	• Paternalistic • Creates a family atmosphere in enterprise • Des not lightly dismiss poor-performance employees
Enterprise E	Male	• Paternalistic • Creates family a atmosphere in enterprise • Authoritarian
Enterprise F	Male	• Paternalistic • Create family a atmosphere in enterprise • Does not lightly dismiss poor performance employees • Authoritarian

4.2.4 General management

General management here refers to the management process. In this section, the management process in all the six cases studied will be described from two dimensions: management control and decision-making procedures.

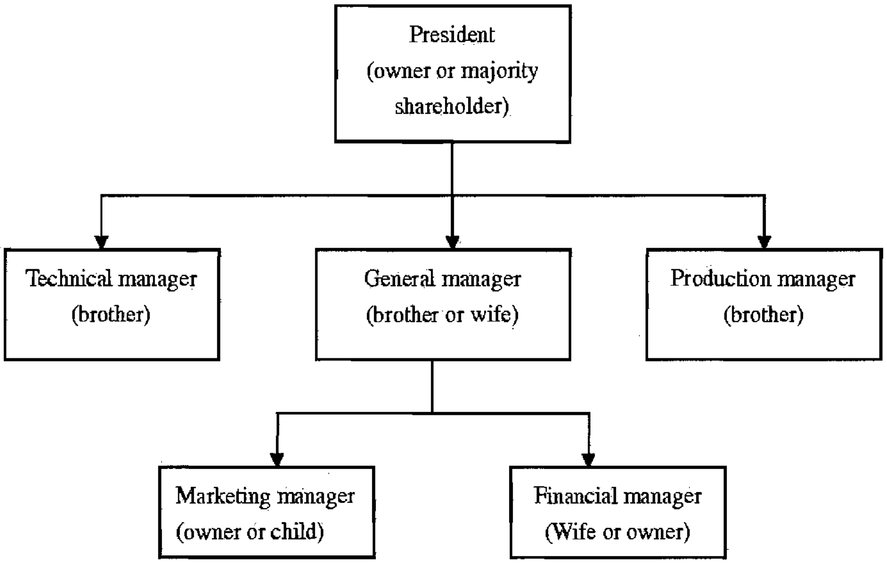
4.2.4.1 Management control

As illustrated in Figure 4, management control is mainly held in the hands of core family members. It can be seen from Table 13 that the top management positions are filled by key family members in all of our cases with the exception of *Enterprise A*. A typical example is *Enterprise B*. The sole owner, who is the paterfamilias of the family, assumes the position of president. His wife takes the role of finance and quality assurance director. The owner's daughter holds the position of general manager and is in charge of marketing. The son of the owner is the production manager. As Miss Huang says, none of the managers has been externally recruited because her family can handle the operations by themselves. A technical manager will be hired in the future when one is needed. This position is the only high-level position open to outsiders.

Extended family members are rarely involved in the six enterprises interviewed. Secondary key management positions are often reserved for long-term employees who show high loyalty and are qualified as quasi-family members. *Enterprise C* is the only case in which outside managers have been recruited from the labour market. However, these outside managers do not have real authority in their positions because they generally hold the position of vice-director and they have to side with the boss since it is the boss who holds the actual power. According to Mr. Yang, assistant general manager

Figure 4

The prevalence of family members in top management positions



of *Enterprise E*, "As an outsider, it is hard to work in a family business. Most of the time, you just follow the owner's instructions. Sometimes, you feel that it suffocates your creativity and talents."

Due to the lack of a hierarchical structure, authority and power are highly concentrated. Effective control over employees is retained at the top management level. Due to the lack of formal job descriptions for each position, it is hard to evaluate employees' performance based on specific criteria. Assessments of performance in all six enterprises are informal and depend on the owners' intuition. Mr. Yang, assistant general manager in *Enterprise E* explained that the degree of loyalty played an important role in the assessment of performance. The owner always rewards those who show high

Table 13

The characteristics of management control in the six cases studied

	Roles that family members play in enterprise	*Management control*
Enterprise A	• **Owner**: general manager, finance, human resource and marketing	• Relatively decentralized • Emphasis on loyalty
Enterprise B	• **Owner**: president • **Wife**: finance, quality assurance • **Daughter**: general manager, marketing • **Son**: production	• Centralized • Emphasis on loyalty
Enterprise C	• **Owner**: president • **Wife**: finance • **Two younger brothers**: factory directors • **Older brother:** general manager, production and development of new products	• Centralized • Emphasis on loyalty
Enterprise D	• **Owner:** factory director, marketing, finance • **Brother-in-law:** the other owner, production	• Centralized • Emphasis on loyalty
Enterprise E	• **Owner**: president • **Oldest brother**: quality assurance • **Two younger brothers:** inventory • **Wife's nephew**: vice sale manager	• Centralized • Emphasis on loyalty
Enterprise F	• **Owner**: factory director, marketing • **Wife**: production	• Centralized • Emphasis on loyalty

loyalty and who seem to have done their best work with a special extra year-end bonus, which is normally given in a concealed way. Mr. Yan, production manager in *Enterprise A* said: "It is necessary to create and maintain some special ties with the top managers in CFOBs; therefore, employees tend to spend time in developing their connections in the organization." Moreover, all the owners interviewed indicate that they are willing to give special rewards to employees who are capable of special skills integral to the business. In order to increase their loyalty to the organization, these special rewards are sometimes in the form of shares. This is applicable in *Enterprise A, Enterprise C* and *Enterprise E.*

4.2.4.2 Decision-making

According to the data collected from the interviews, decision-making is highly centralized in all six enterprises. In general, there is only one person who holds the position of final decision-maker and this person is normally the owner-manager or the largest shareholder. As Mr. Wu, who is the president of *Enterprise E*, says, "There can only be one person in the enterprise who has the right of final decision-making. If there is more than one person, organizational decision-making can not be coordinated." The owner-managers in *Enterprise C* and *Enterprise F* and the largest shareholder of *Enterprise E* have absolute power over decision-making in their enterprises, and they control the important decisions, such as investing in new projects, recruiting people at the management level, and developing important customers. Although things will be discussed in the meeting with other senior managers in the enterprise, the owner-manager's opinions are still the most important basis for making the final decision. The most significant example is the case of *Enterprise C*. As Mr. Yu says, "As the owner of the enterprise, I have absolute power. Once I make the decision, no one can change it. I usually make the important decisions by myself or sometimes by discussing things with my close friends, who are also entrepreneurs. No-one in the enterprise, even my assistant, knows exactly why I made the decisions and how I made them."

Enterprise A is the only case in our sample where the owner-manager makes decisions by talking with senior managers in the enterprises. Mrs. Zhang, who is the owner-manager of *Enterprise A*, said: "Due to my limited capacity, I could not make decisions in all aspects by myself. The enterprise belongs not only to me, even though I hold 100 percent ownership. I am not an autocrat; I like to discuss things with my managers in the meeting. I hold the position of final decision-maker, but I tend to adopt

Table 14

The characteristics of decision-making in the six cases studied

	Decision-making
Enterprise A	• Decision-making is relatively open • Decisions are made through discussion with senior managers • Adopts the decision that is mostly agreed upon
Enterprise B	• Decision-making is highly centralized • Friendly discussion within the family • The process is simple • Each member makes decision in his/her own field
Enterprise C	• Kept confidential and highly centralized • Owner has absolute decision-making power and makes most of the decisions by himself • Discusses with closest business friends
Enterprise D	• Decision-making is highly centralized; • Decisions are made by the two owners, each takes responsibility for his own field • The process is simple, • Depends on information gathered from business friends
Enterprise E	• The largest shareholder holds the right of final decision-making • The process is relatively open and formal • Conducts research before discussing in the management review meeting
Enterprise F	• Kept confidential and highly centralized • Owner has absolute decision-making power • The process is simple • Mostly made by the owner himself

the decisions that the majority of people agree upon." The situation is similar in the case of *Enterprise B* and *Enterprise D*. There is a final decision-maker in the enterprise, but senior managers, who are all family members, tend to make the decisions in their field on their own. In the case of *Enterprise B*, Miss Huang's father, who is the present owner of *Enterprise B* holds the position. Mr. Chen, who is the largest shareholder of *Enterprise D,* plays the role of final decision-maker should there be a case where his brother-in-law, who is the other owner of *Enterprise D*, is not in agreement with him.

The decision-making procedure is very simple in all the six CFOBs interviewed. As can be seen in Table 14, decisions are often made solely by the boss in *Enterprise C* and *Enterprise F*. They tend to make most of their decisions based on their intuition and information gathered through personal networks. Mr. Yu argues: "The market changes quickly and frequently today; you can no longer make decisions by relying only on your experience. You have to gather information from your business friends and conduct industry research by yourself before making a decision. However, in order to seize the opportunity, this process must be short. To shorten and simplify the decision-making procedure, I usually make it by myself and my intuition plays a very important role in this procedure." *Enterprise B* and *Enterprise D* have a similar situation. Important decisions are discussed in a friendly way with others, who are all family members and hold key management positions. However, each of the managers has the sole decision-making right in his/her own field. There is typically no interference in each other's field. The process is simple, without conducting any formal research before making a decision. Decision-making is relatively open in *Enterprise A* and *Enterprise E*. Senior managers are involved in the process of decision-making, especially in *Enterprise A*. Important issues are discussed in a meeting with the owner and key senior managers. Before an issue is discussed in the meeting, everyone involved is required to do research and prepare a report. Everyone is allowed to state his/her own opinion in the meeting and decisions are generally made based on the discussion and reports

However, decisions about major goals are still kept confidential in all six enterprises even though the decision-making process is more open in *Enterprise A* and *Enterprise E*. Goal-setting is often treated as an internal family affair. Sometimes, the owner makes the decision and nobody, not even other family members, knows any details. All the owners interviewed regard the goal-setting matter as the owner's responsibility; they all indicated that they would not discuss goal-setting with employees. As Mr. Yu stated, "I started the enterprise by myself. I have taken care of every aspect of the business. Nobody knows my business better than I do. Therefore, I am the most qualified one to set the goals for the enterprise. My men's responsibility is to do their best to achieve my goals." Information gathered through the owner's personal network is the most important basis for making decision in all of the six cases. All the owners interviewed pointed out that they like to ask business friends for advice when they make important decisions.

4.2.5 Production management

As shown in Table 15 below, all six enterprises are in the manufacturing industry, and production is viewed as the most important function in the enterprise. Consequently, production has been given priority and production management has attracted the most attention. All the departments developed in the small CFOBs, such as *Enterprise B* and *Enterprise D*, are related to production functions. The position of production manager is typically held by the owner or by a key family member, such as the wife or brother. All the owners interviewed agree that production is strongly market oriented in their enterprise so that they always attempt to develop new lines of products in response to changes in the global market and they are willing to develop new product lines to produce any products that have good market prospects. As Mr. Yu, president of *Enterprise C*, said: "I will produce any kind of product which has good market potential. Once I discover the customer demands, I will invest in production whether the profit margin is low or high." Production flexibility prevails in all of our cases. All the owners interviewed agree that by using personal networks, they are able to meet seasonal demands and accept orders subject to various different requirements such as amount,

Table 15

The characteristics of production management in the six cases studied

	Main department	Production management
Enterprise A	• Production • Technical development • Sales	• Manufacturing industry thus gives priority to production; production manager is a long-term employee • Limited production capacity and focuses on one kind of entire product which is high technical content • Both quality and service are important; • Obtained CE, ISO9001, ISO13485 certificates but quality management system is not practical • Pay a lot of attention to R&D
Enterprise B	• Production • Quality control	• Manufacturing industry thus gives priority to production; production is flexible; able to handle small orders • Owner's son holds the position of production manager • Produces parts and components for others; 5 categories, 40 kinds of products which are all low technical • Uses subcontracting to handle labour shortage and technical insufficiences • Control quality by process
Enterprise C	• Production • Quality control • Sales • Financial • General affairs	• Manufacturing industry thus gives priority to production; • Strongly market-oriented and manufactures low technical content product • Established two branch factories which produce products in different industries • ISO9001:2000 quality management system; obtained many safety standard certificates such as CE, NF, GS/CE • R&D is important
Enterprise D	• Production • Three workshops	• Manufacturing industry thus gives priority to production; production is flexible but productive capacity is very limited • Quality is important and has obtained ISO9001 certificate but quality management system is not practical • Produces parts and components for others; only three kinds of products which are all low technical • Strongly market-oriented but lack of products which have great market prospects • Control quality in their own way which has been developed during the long-term production experience
Enterprise E	• Production • Quality control • Sales • General affairs	• Manufacturing industry thus gives priority to production, owner's brother holds the position of production manager • Produces parts for others, which are mainly labour intensive products thus production capacity is limited • R&D is important; the price of raw material is a restriction to production expansion • Quality is important and has ISO/TS 16949 quality management system
Enterprise F	• Production • Quality control	• Manufacturing industry thus gives priority to production; owner's wife holds the position of production manager • High quality product at reasonable price is the outstanding advantage • Obtained ISO9001:2000 certificate and SGS, ISO 14001:2001 environment management system attestation • Producing parts for others; all kinds of products are concentrated in the downstream of industry chain; low-value-added

delivery date and special specifications. “We use subcontracting to handle labour shortages and other insufficiencies so that we can deliver goods in a very short period of time.” said Miss Huang, the general manager of *Enterprise B*.

Five out of the six cases manufacture down or middle stream products in the industry chain, which are low technical content and low value-added. They usually act as suppliers for others and manufacture parts and components for others. *Enterprise A* is the only exception which manufactures entire machines in our sample. Its products, which have obtained nearly 20 patents, are high value-added and high technical content. However, due to its small scale, the production capacity of *Enterprise A* is very limited. The six CFOBs are no longer only focusing on one product. Five of the enterprises sampled have developed their capacity to produce various products. They are presently manufacturing at least two kinds of products with various types and models. *Enterprise A* is the only enterprise that focuses on only one product; however, this product has been divided into three generations and has over 20 models.

Quality control has been paid more attention in all six CFOBs. “Providing products with high quality at a reasonable price is our outstanding competitive advantage.” said Mr. Zhang, the owner of *Enterprise F*. Quality management systems such as ISO9001:2000 have been implemented in all the cases except *Enterprise B*. However, each enterprise stated that even though quality management system certification was necessary in order to enter international markets, the quality management system still needed to be flexible in their enterprise. At present, due to their scale, they cannot meet all of the requirements and standards of a quality management system. Among our cases, two enterprises, *Enterprise A* and *Enterprise D*, indicated that the quality management system would not be practical in their enterprises even though they have been registered to ISO9000. They say that during their extensive production experience they have developed their own standards and methods to assure product quality. These methods are more efficient and practical in their enterprises. Product quality is typically tightly controlled by processes. The person who takes responsibility for quality assurance should be one whom owner-managers trust greatly. Therefore, they tend to be family members or trusted long-term employees. For example, in *Enterprise B*, Miss Huang's mother assumes the position of quality assurance director. She says that she comes to the workshop every day to supervise the production. She strictly inspects product quality in every link in the production chain. Even though a professional inspector tests every finished product, Miss Huang's mother believes that building quality into the manufacturing process is the most efficient quality control method.

Research and development (R&D) has been given more and more attention even though five of the enterprises interviewed make profits relying on mass production and reducing production costs. It can be seen from data collected that R&D is playing an increasingly important role in four of the cases. Owners from *Enterprise A, Enterprise C, Enterprise E* and *Enterprise F* all agreed that R&D was indispensable to their enterprises in order to compete in the market. A typical example is *Enterprise A*. Mrs. Zhang pointed out that product life cycles were much shorter than before; therefore, an enterprise cannot compete in the market without R&D. As product designer, Mrs. Zhang said: "I have to focus on R&D so as to keep on upgrading the products. Our products have obtained over 20 patents, and this is a competitive advantage which cannot be imitated by others."

4.2.6 Financial management

Tight personal control is exerted on financial management in all six enterprises. The position of financial manager is reserved for the boss in four of the cases. In the other two cases, *Enterprise B* and *Enterprise C*, a key member of the family—the wife of the owner—assumes responsibility for financial management. There is a general consensus that the financial situation in a family business should not be published. Therefore, the financial situation is typically regarded as a family secret and financial decisions are made by the owner or through discussion within the core family. An outside accountant is hired in *Enterprise B* and *Enterprise F* to maintain the accounting records. However, they do not have the power to make any financial decisions. An independent financial department has been developed in *Enterprise C*, and two outside accountants deal with the daily affairs while the owner's wife takes care of cash management. The assistant general manager is in charge of financial management in *Enterprise D*. He is the only outsider who has responsibility for financial management in the sample. However, a fact that needs to be mentioned here is that being a long-term colleague of the owner, he is regarded as a quasi-family member of the owner's family. Even so, his authority is still limited, and he needs the owner's approval for any decision where the amount is over one thousand Canadian dollars.

All six enterprises currently have no debt but they have all indicated that they will not refuse to go into debt if necessary. The use of debt is no longer regarded as an indication of a bad financial situation in the six CFOBs interviewed. All the interviewees agreed that it was reasonable to have a certain percentage of debt in their enterprises. However, they tend to be less risk oriented; therefore, they are unwilling to take unnecessary debts in order to avoid the risk of not being able to repay the debt in future.

Table 16

The characteristics of financial management in the six cases studied

	Financial management
Enterprise A	• Tight personal control; the owner is in charge of finances • Currently no debt, but will not avoid taking a loan • Financial situation is guarded • Prefers borrowing money from friends
Enterprise B	• Tight personal control; wife of the owner is responsible for finance • Currently no debt, but will not avoid taking loan • Financial situation is guarded • Prefers borrowing money from friends
Enterprise C	• Tight personal control; wife of the owner is responsible for finance • Developed independent financial department • Currently no debt, but will not avoid taking loan • Financial situation is guarded • Prefers borrowing money from friends but has good relationship with bank
Enterprise D	• Tight personal control; the owner is in charge of finance • Currently no debt, but will not avoid taking loan • Financial situation is guarded • Prefers borrowing money from friends
Enterprise E	• Tight personal control; the owner is in charge of finance • Currently no debt, but will not avoid taking loan • Financial situation is guarded • Prefers borrowing money from friends, has relatively clear debt policy
Enterprise F	• Tight personal control; the owner is in charge of finance • Currently no debt, but will not avoid taking loan • Financial situation is guarded • Prefer borrowing money from friends

It can be seen that Chinese managers excel in cash management. All the owners interviewed indicated that they chose their customers cautiously to ensure that they would receive payments on time each month. "Transactions are typically in cash only, and thus we are able to have a positive cash flow" Miss Huang said.

Borrowing money from relatives and/or friends was said to be the first choice for financing. This preference is applicable in all the cases and two reasons have been given to explain this preference. Firstly, as Mrs. Zhang explained, the procedure of taking loans from financial institutions is complicated and costly. "Due to the lack of small and medium-sized enterprises (SMEs) financial support system in mainland China, it is extremely hard for small and medium-sized CFOBs to get loans from financial institutions. Not only is the procedure of getting loans from a bank quite complicated, but also the cost of borrowing is high. Banks generally provide mortgage loans with tougher credit terms to small and medium-sized CFOBs. It is very hard to meet the requirements of the loan application," Mrs. Zhang said. Because of these difficulties, all the six owners interviewed prefer to borrow money from relatives and/or friends in order to simplify the procedure and get money quickly. The owner of *Enterprise F* said: "I am willing to pay my friends the same or even a higher interest rate in order to get the loan immediately. A quick and efficient response is the best way to grasp business opportunity; I cannot waste my time waiting for the bank to evaluate my loan application."

Secondly, the risk of getting loans from financial institutions is high. The president of *Enterprise A* said: "As a small family enterprise, I can never receive financial support from financial institutions when I really need financing. Financial institutions tend to provide me with loans on their own initiative when my enterprise is in a good financial situation and does not really need financing; however, I can rarely get loans from them when I have financial difficulty. In addition, I have to worry that I might be asked to repay the debt before it has matured even if I successfully get the loan from the bank. Banks often ask you to repay your debt in advance due to policy reasons; this is harmful for the development of enterprise because you cannot predict this risk beforehand." In contrast, finding capital from a friendly resource is regarded as a stable method. As explained by Mr. Zhang, the owner of *Enterprise F*, "Once you get money from your friends, you can use it as long as you want. Due to the long-term trust between each other, you do not need to worry that they will press you for the payment. There is less risk than getting a loan from a bank."

Even though all six enterprises currently have no debt, they have a relatively clear debt policy. For example, in the case of *Enterprise E*, they say that if the loan amount is less than five million Canadian dollars, a friendly resource is the first choice; if the financing gap is over five million Canadian dollars but less than fifty million Canadian dollars, finding capital from a formal financial market is necessary; once the financing gap is over fifty million Canadian dollars, they have to rely on other capital operation methods, such as including external owners, or establishing a joint venture.

4.2.7 Marketing management

Marketing management is relatively informal in each of the six cases even though marketing is regarded as the most important function after production. As Table 17 reveals, a marketing department has been set up in only three cases, *Enterprise A, Enterprise C* and *Enterprise E.* In the cases where there is no marketing department, the owner-managers take full responsibility for marketing. The position of marketing manager is usually held by a family member; in many cases, the marketing manager is the owner himself. This can be seen in *Enterprise A, Enterprise B, Enterprise D,* and *Enterprise F.* Owing to competition in the market, they have to avoid the risk that rival companies will take away their current customers in an improper way. As said by Mr. Zhang, "Rival companies can easily take away your non-family employees by paying a

Table 17

The characteristics of marketing management in the six cases studied

	Marketing Management
Enterprise A	• Relatively informal • Developed marketing department • President holds the position of marketing • Products are mainly exported, but the market share is small due to production limitation • Currently is OEM and plans to build its own brand in future • Has a detailed plan for market development • Develops new customers through industrial exhibitions • Personal networks are important in market expansion
Enterprise B	• Informal • No marketing department • General manger takes the full responsibility for marketing • Simple sales model • Finds customers through personal networks • Plans to export
Enterprise C	• Relatively informal • Developed marketing department • Outside vice marketing manager deals with daily affairs • Mainly exports products • Current customers are stable, and is therefore unwilling to develop new customers • Finds customers through industrial exhibitions
Enterprise D	• Informal • No marketing department • Owner takes the position of marketing manager • No strategy for future development • Orders acquired from friends and personal networks play an important role
Enterprise E	• Informal • Developed marketing department • Vice marketing manager is owner's relative • Sales capacity is a restriction to the development of the enterprise • It is important to develop new customers through industrial exhibitions and personal networks • Plans to merge the marketing department with the marketing department in owner's uncle's enterprise in order to save costs
Enterprise F	• Informal • The owner assumes the position of marketing • It is important to develop customers through industrial exhibitions, and owner's personal network is important • Meets customers' requirements unconditionally • Simple sales model

higher salary. Because of a lack of trust, outside employees could take away your customers' information when they leave. As a result, you lose your customers when you lose your employees." Miss Huang, who holds the position of marketing manager in *Enterprise B*, further explained: "Most products that mainland CFOBs produce are low technical content so that they can easily be copied by others. Once rivals obtain your customers' information, they can copy the products and provide a lower price to your current customers even though they may initially lose money. By doing so, your customers are taken away by your rivals." To avoid this risk, each of the six enterprises treats customer information as family secrets; consequently, non-family employees are seldom hired to take the position of marketing manager. Vice-marketing managers are typically assigned to take care of daily affairs in the enterprise where a marketing department has been set up, as shown in the cases of *Enterprise C* and *Enterprise E.* However, their authority is limited; important decisions such as choosing new customers, setting the price, etc. are still made by the owners. As indicated by Mr. Xie, vice-marketing manager of *Enterprise E*, "I do not have the real authority of my department. Most of the time, I have to ask the president and follow his instructions, especially when it involves pricing issues."

All the interviewees agreed that owner's personal networks play an important role in market expansion. It is said to be the common and most efficient way to develop new markets and find customers. A typical example is *Enterprise D*. According to Mr. Chen, who is the factory director of *Enterprise D* and takes full responsibility for marketing, his personal network is the only channel that he uses to find customers. He explained: "My first customer was introduced by my friend; my current largest customer is my good friend as well. At present, over eighty percent of the total annual orders are acquired from him. My enterprise cannot survive without friends' help. Maintaining good friendships with business partners is very important for small business owners. To make friends with your business partners is an efficient way to establish long-term cooperation." Trade shows and industrial exhibitions are another way for CFOBs to find clients. It can be seen from Table 17 that four of these six enterprises have adopted this method of market expansion (*Enterprise A, Enterprise C, Enterprise E* and *Enterprise F).* In particular, most of the customers in *Enterprise C* and *Enterprise F* were found through industrial exhibitions. To develop new customers through professional industrial exhibitions was said to be the most efficient way to expand into international market.

The six CFOBs interviewed are no longer focused on only one product or one market. Many of them have been expanded into international markets. Among our six cases, four of them, *(Enterprise A, Enterprise C, Enterprise E* and *Enterprise F)*, are exporting their products into many countries and regions. Service is being paid more attention to in the six CFOBs studied. All the interviewees indicated that customers' requirements are the most important thing for them. They are willing to do whatever they can to meet customers' requirements. Mrs. Zhang, the president of *Enterprise A* said: "I often tell my staff that customers are always right. Providing them the best quality products and service is what we need to do."

The sales model is simple and pricing is the most important aspect within the area of marketing for all six enterprises. It can be seen that the CFOB owners interviewed are excellent at finding market niches and they are able to succeed in markets with very low profit margins. A significant example is *Enterprise F.* The factory director said: "Our products are not noticeable and the per unit profit of is less than one cent. However, our products are widely used in the machinery manufacturing industry. They can be used in almost every kind of mechanical product. Consequently, the market potential is huge and our annual profit is remarkable." Advertising and promotion are said to be less important; this is explained by the limitations of scale and finances. Creating a brand is attracting more and more attention today in the six CFOBs. Mrs. Zhang, the president of *Enterprise A*, stated: "My enterprise is currently an original equipment manufacturer (OEM), but my dream is to create my own brand. This is my objective in the next 10 years." *Enterprise B* is the only exception in our sample. The general manager in *Enterprise B* indicated that they have never considered creating their own brand.

4.2.8 Human resource management

The characteristics of human resource management within the six CFOBs are synthesized in Table 18 below. The data collected leads to the conclusion that human resource management has received less attention in these six CFOBs. None of them has developed an independent human resource department in their enterprise. Owing to the fact that priority has been given to production, most employees in the six enterprises are blue-collar workers. As a result, recruitment of workers is typically regarded as a task of the production manager. Recruitment for management level positions is the responsibility of the owner-manager in all of our cases. As aforementioned, the involvement of family members in managerial positions is dominant. The general lack of trust pushes these CFOBs' entrepreneurs to reserve the key management positions for family members or close friends in the case where qualified family members are not available. Mr. Wu, president of *Enterprise E*, points out that the positions related to monetary issues are typically filled with family members. Normally these positions include financial manager, purchasing manager, and marketing manager. The person who is in charge of inventory should also be a family member; this can be seen in

Enterprise D and *Enterprise E.*

Table 18

The characteristics of human resource management in the six cases studied

	Human resource management
Enterprise A	• No independent human resource department • Owner takes responsibility for recruitment at the management level • No family employees in the enterprise and less nepotism • Informal performance assessment • Reliability and loyalty are important in promotion • Person's personality and moral character are most important in recruitment • Donates shares as encouragement
Enterprise B	• Little attention paid to human resources; no independent human resource department • Owner takes responsibility for recruitment at the management level • Less nepotism and prefer fewer family members working in the enterprise • Subjective performance assessment • Person's personality and moral character are most important in recruitment
Enterprise C	• Owner takes responsibility for recruitment at the management level • Less nepotism • Individual pay level is not open • Competence is important in recruitment and promotion • Donates shares as stimulation
Enterprise D	• Is paid less attention; no independent human resource department • Owner takes responsibility for recruitment at the management level • Less nepotism and prefers fewer family members working in the enterprise • Person's personality and moral character are most important in recruitment
Enterprise E	• No independent human resource department and owner recruits managers • Family members should gradually release managerial power • Competence is important in recruitment and promotion • Donating shares as stimulation
Enterprise F	• Little attention paid to human resources; no independent human resource department • Owner takes responsibility for recruitment at the management level • Less nepotism and prefers fewer family members working in the enterprise • Competence is important in recruitment and promotion

Nepotism plays a less important role in the six CFOBs. Aside from management positions, family members are rarely hired in the enterprise. It is wildly believed that more family members working in the enterprise means that more difficulties will be encountered in managing the enterprise. It can be seen from the data that fewer than ten employees are family members from the owner's family in *Enterprise C,* even though it has a staff of 650. All of the owners interviewed agreed that all family members need to gradually release their managerial authority in the future. Three reasons have been given to explain this situation. First, it is hard to manage family employees due to the family relationship. "You cannot discharge a family employee based on his/her poor performance. You cannot even punish him/her because of the family relationship" said Miss Huang. Second, fewer family members working in enterprise contribute to a better family relationship. As Mr. Wu says, it is hard to maintain family harmony if close family members work together because conflicts in business sometimes lead to conflicts in family. Third, due to the difficulty of setting a fair pay level for family employees, the six mainland CFOBs entrepreneurs prefer hiring fewer family employees in their enterprises. According to Mr. Zhang, the owner of *Enterprise F*, the pay level in Chinese enterprises is normally much lower than that in Western countries; it is hard to hire a family member and pay him a low salary due to the family relationship. Additionally, there are more and more business opportunities in China now; family members of great ability prefer to start their own businesses rather than work for others. Therefore, "it is not easy to hire qualified family members to work in your enterprise" said Mr. Zhang. It is also said that due to their limited abilities and management knowledge, the involvement of family managers in the enterprise will restrict the development of the enterprise. "Family members should gradually release their power and give their positions to professional managers. They will not complain as long as they make profit from the enterprise" Mr. Wu said.

Selection processes in the six mainland CFOBs are simple. Structured selection interviews are rarely conducted in recruitment. Recruitment at the management level is typically the task of owners and they tend to hire family members or close friends whom they know well and trust very much. The six CFOB entrepreneurs tend to select people by intuition. Mr. Chen stated: "I used to hire acquaintances that I knew well because I am familiar with his/her competence and background. Once I think he/she is qualified, I will hire him." Concerning selection factors, owners of *Enterprise A, Enterprise B* and *Enterprise D* hold the same viewpoint that a person's personality and moral character are the most important criteria of selection. Mrs. Zhang said: "I firstly judge a person's moral character. I can accept a person with weak competence, but he/she must have good moral character. I believe that capability can be improved by training, but the moral character cannot." Owners of the other three enterprises hold a different opinion. They give priority to competence because they believe that nothing can compare with the wealth that the employees with great capability create.

Reliability and loyalty play an important role in promotion and selection criteria are informal. Five out of the six CFOBs interviewed promote people based on loyalty rather than on capability. As Mrs. Zhang says, she prefers to promote a long-term employee to a newcomer if there is not a large difference in their competence. Promotion is sometimes regarded as a reward for an employee's loyalty. This preference is applicable in all cases except *Enterprise E.*

Training tends to be limited in teaching technical skills in the six CFOBs. Each of the six enterprises indicated that a one-week training program is provided to every newly hired worker in order to help him become familiar with production procedures. However, managerial training is rarely conducted. In only two of the cases (*Enterprise C* and *Enterprise E),* the owner said that they have begun to provide regular managerial training to their middle and senior managers. For example, a management consultant was hired in *Enterprise C* in 2006. He gives management courses to middle and senior managers once a month.

Performance appraisals are informal and professional performance appraisal techniques, such as management by objectives (MBO), appraisal feedback interviews, etc. are rarely practised in all six mainland CFOBs. Due to the lack of performance standards and evaluation instruments, performance appraisals generally depend on owner-managers' feelings, which are typically subjective. Miss Huang stated: "The owner-managers, who are my mother and my brother in my case, go to the workshop daily so that we clearly know who is diligent and whose performance is deficient. Proficient workers are rewarded individually with year-end bonuses for good work performance."

Compensation policies are simple and performance-based rewards are common in the six mainland CFOBs. Each of the six enterprises pays their employees a combination of salary and commissions or piecework. However, owing to the lack of objective assessment mechanism, the owner himself typically defines pay rates in an informal way. Individual pay rate tends to be concealed and salaries of top managers are often regarded as a family secret. For example, in *Enterprise C*, Mr. Yu said: "I decide the pay level of all the employees and nobody knows the reality. When I need to hire a key employee, I can pay him ten times the regular salary. I have the right to make this decision."

The stimulation mechanism is simple in the six CFOBs studied. Monetary stimulation is the most common method to encourage higher performance. As previously stated, the boss gives substantial personal rewards in the form of year-end bonuses to those who are highly loyal to top management and are capable of special skills integral to the enterprise. Besides the bonuses, a relatively new method is an equity incentive plan. Mr. Yu indicated that he would like to donate a certain percentage of shares to the key employees who are essential for the enterprise's development in order to keep them working for the enterprise. As he said, "I have to keep 51 percent ownership in order to keep the decision-making right; the remaining ownership I will gradually donate to the key persons in my enterprise or to the one whom I desire to hire." The owners of *Enterprise A* and *Enterprise E* hold the same viewpoint.

4.2.9 The influence of Chinese culture and personal networks

Traditional Chinese culture values such as familism, paternalism, a clear hierarchy, honesty, integrity and diligence have varying degrees of influence on Chinese management culture. Among them, trust and interpersonal relationships are regarded as the two most important factors. As previously mentioned, all the owners interviewed agreed that trust is extremely important in their enterprises. Non-family employees are delegated minimal responsibilities and few of them are assigned key positions. While this minimizes monitoring costs in the organization, it also becomes an obstacle to recruiting talented personnel. Mr. Zhang indicated that due to the lack of trust, CFOB entrepreneurs have no confidence in outside managers and they delegate minimal authority to outsiders. As a result, outside professionals are less willing to work in CFOBs because they find that distrust from an owner often suffocates their creativity and talents. "It is a dilemma", as Mr. Zhang said. Trustworthiness is an important factor in recruitment, selection, and promotion. There is an old Chinese saying: "Employers do not suspect, the suspects do not have to". All the owners that were interviewed agreed with this old saying.

Interpersonal relationships play a very important role in Chinese business operations. Chinese culture is a collective culture, and establishing a good personal network is important to CFOBs entrepreneurs. *Ren Qing* and *Guanxi* are two traditional Chinese concepts referring to social relationships in Chinese daily life. *Ren Qing* can be explained as social favours that are exchanged in the form of money, goods, information, services, etc. *Guanxi* (often translated into English as "connection") means all different types of social ties. Maintaining and using useful ties are considered to be a management art in all six enterprises. According to Mr. Yu, "Nothing is more important than establishing useful interpersonal relationships in operating a business. It is the first thing you need to do when you plan to start your own business. However, establishing an interpersonal network is not enough; you have to maintain and continue developing it in order to develop and expand your business. Once you have developed a useful personal connection network, nothing will be difficult for your business." Interpersonal relationships and connections are regarded as the source of wealth creation. "Relying on the owner's interpersonal network is the most convenient, economic and reliable way to solve business problems in CFOBs," Mr. Yu said.

Owing to the importance of interpersonal relationships in Chinese management, operating their businesses through personal connection networks is considered essential for all six of the CFOBs entrepreneurs. These networks are not only personal networks but also business networks. As previously mentioned, CFOB entrepreneurs acquire orders, obtain necessary financing, and overcome production insufficiencies through these networks. Cooperating with others consequently becomes important because of these networks. As Mr. Chen argued, "As an entrepreneur of a small business, you have to learn to cooperate with others and know how to develop your own enterprise with the aid of others. Cooperation is the best choice. To cooperate with other business partners is the most efficient way to extricate your business from difficulties." Two forms of cooperation are introduced here. The first one, which is called formal cooperation, refers to enterprise combination. Mr. Wu said: "If you want to expand your business to a certain scale, you have to cooperate with a powerful partner. By merging two enterprises into one, both enterprises can grow into a large scale that neither of them could reach by itself." The other form of cooperation is called informal cooperation. It is more like mutual aid and it has been widely used by all six CFOBs. Miss Huang gave us a typical example. She reported that once, her customers had placed a big order which exceeded the capacity of production in her enterprise. In order to handle this productive shortage, she subcontracted part of this order to her friend. By doing so, she not only finished the order on time, but she also did her friend a favour, which is likely to be repaid at a later date. Mutual aid within industry is regarded as a guarantee of sound development for CFOBs. "Share benefits with others and they will give you a hand when you are in trouble" Mr. Chen said.

The traditional cultural value of reciprocity is highly valued by the mainland CFOBs entrepreneurs interviewed. Reciprocity here is a factor in interpersonal relationships rather than in business dealings. In Chinese opinion, if they do a favour for a friend, they feel their friends owe them a favour in return. As a result, Chinese sometimes do favours that are not requested because they believe that their favours will be repaid in the future. This is an expression of reciprocity in Chinese social relationship. In this sense, reciprocity is one reason why Chinese people feel comfortable when they do business with those with whom they have *Guanxi*.

4.3 Differences between the six mainland CFOBs and overseas CFOBs

A clear view of management within the six mainland CFOBs has now been established. Various characteristics of their management have been discussed in terms of ownership, organizational structure, leadership style, general management, production management, financial management, marketing management, and human resource management. Based on previous discussions, it can be concluded that the six mainland CFOBs implement a unique style, which is very similar to that of overseas CFOBs (as can be seen in Table 19). However, some outstanding differences have been observed:

- *The growth of business is more important so that owners of these six CFOBs studied are willing to share ownership with outsiders*

Compared to overseas CFOBs, the growth of business is more important for the six mainland CFOBs. Maintaining family ownership is no longer the most important objective for the six mainland CFOBs. As can be seen from the data collected, five owners in our sample indicated that they are willing to share ownership with others if it proves beneficial to the development of the enterprise. It was widely agreed that maintaining family ownership is an obstacle to the growth of enterprise.

- *The scale of business is not necessarily small but most of the employees in the six CFOBs studied are manual workers*

As evident from the data, business scale is no longer necessarily small. Among the six enterprises, only three have fewer than fifty employees. The number of employees in *Enterprise E* and *Enterprise F* is over one hundred, and *Enterprise C* has a staff of 650.

Table 19

Comparison of management model: six mainland CFOBs vs. overseas CFOBs

	Overseas CFOBs	*Six mainland CFOBs*
Ownership	• Ownership is controlled by one family • Family savings are the primary source of capital • **No intention of sharing ownership with outsiders** • **Prefer family ownership to growth of enterprise**	• Sole ownership or partnership • Family savings are the primary source of capital • **Are willing to share ownership with outsider if necessary** • **Growth of business is more important than keeping family ownership**
Organizational structure	• Simple and unstructured • **Small scale** • High centralization	• Relatively simple and unstructured • **In the process of becoming formalized** • **Not necessarily small in size but most employees are manual workers** • High centralization
Leadership style	• Autocratic • Paternalistic	• Autocratic • Paternalistic
Nature of control	• Centralized management control	•Centralized management control
Decision-making	• Tight decision-making • Process is simple	• Tight decision-making • Process is simple
Production management	• Flexible production • **Unique product** • Market oriented • **Less R&D**	• Flexible production and market oriented • **Various types of products are manufactured** • Quality control is important • **R&D is attracting more attention**
Financial management	• Cost conscious and excel in cash management • Internal financing through personal network • **No-debt policy** and regard debt as indication of bad financial situation • Financial situation is kept secret	• Cost conscious and excel in cash management • Internal financing through personal network • **Relatively clear debt policy** and willing to take loans from financial institutions • Financial situation is kept secret
Marketing management	• Excel in finding market niches • Sensitive to market changes • **Focus on one market** • **Service is less important** • **Not brand oriented**	• Excel in finding market niches • Sensitive to market change • **Expansion into international markets** • **More attention being paid to service** • **Willing to create own bread**
Human resource management	• Involvement of family members • **Existence of nepotism** • Informal appraisal of performance	• Involvement of family members is **only dominant at management level** • **Less nepotism** • Informal appraisal of performance
Extensive networks	• Recruiting employee • Financing • Expanding market	• Financing • Expanding market • Discovering business opportunities • **Subcontracting production**
Influence of Chinese culture	• Root Confucian • Significant impact on managerial practices	• Root Confucian • Significant impact on managerial practices

Moreover, as mentioned in Chapter III, due to the scale of the enterprises, there were two enterprises that were not included in the sample but that were also interviewed. They have even been developed into large enterprises. However, due to the lack of advanced manufacturing equipment and/or the labour-intensive nature of products, most of the employees in the six enterprises are manual workers.

➢ *Research and development (R &D) has attracted more attention*

Even though five of the six CFOBs are manufacturing parts and components for others that are typically low technical content and low value-added, owners of all the CFOBs interviewed indicate that they are willing to produce high technical content and high-value-added products such as entire machines. R&D is receiving more attention. Four of the entrepreneurs in the sample agreed that R&D is indispensable to their enterprises if they want to compete in international markets.

➢ *The use of debt is no longer an indication of a bad financial situation and owners of the six CFOBs have begun to have a relatively clear debt policy*

At present, none of the six CFOBs interviewed has debt, but each has indicated that they will not refuse to accept debt when it is necessary. The use of debt is regarded as a reasonable method of financing and is no longer an indication of a bad financial situation in the six CFOBs. Even though they do not currently have debt, they have a relatively clear debt policy. It was said that the first step of financing is to borrow money from relatives and friends; the second step is to take a loan from a financial institution and the last step is to allow external owners, such as when establishing a joint venture.

- *The six mainland CFOBs are no longer focusing on one product and one market*

Enterprise A is the only case that is producing only one type of product. However, this product is now in its third generation and has over 20 models. The rest of the enterprises have all developed their capacity for producing various products. To produce various products is considered as one way to segregate business risk. The six CFOBs no longer focus on one market, and four enterprises in the sample have expanded into international markets. Their products have been exported to many countries and regions.

- *Service has received more attention in the six mainland CFOBs; they plan to create their own brand when they have the capability*

Service has received more attention in all six mainland CFOBs. The idea that competition in today's market is not limited to price and product quality, but also includes competition based on service is now widely accepted. Each of the CFOB entrepreneurs interviewed indicate that they are devoting more time and effort to improving the quality of their service and they are willing to do whatever they can to meet customers' requirements. Creating their own brand is attracting more and more attention in these six enterprises, even though many of them are currently original equipment manufacturers. Five of the CFOBs interviewed indicated that they plan to create their own brands when they have the capability.

- *The involvement of family members is limited to management level; nepotism is less prevalent among these six mainland CFOBs*

Compared to overseas CFOBs, nepotism is less prevalent in these six CFOBs interviewed. The involvement of family members is now dominant only at the management level in all six CFOBs except *Enterprise A.* As previously mentioned, key management positions are still filled with family members or close friends in the case where qualified family members are not available. However, aside from management positions, family members are rarely hired in the enterprises. The CFOB entrepreneurs interviewed tend to believe that with more family members working in the enterprise, it becomes more difficult to manage the enterprise. Some of them even indicated that due to their limited ability and management knowledge, family managers should gradually release their power to professional managers during the process of expansion. "It will be a chief obstacle to the development of enterprises if family members continue holding the management positions. They must release their power to outside qualified professional managers when the family-owner business develops into a modern enterprise. It is the only way to maintain the healthy development of family-owned businesses," Mr. Wu, the owner of *Enterprise E*, said.

CONCLUSION

CONCLUSION

This study investigated Chinese family-owned businesses (CFOBs) in mainland China. The objective was to study the management model of mainland CFOBs and discover whether they followed the same principles that have been described in overseas CFOBs in previous literature. The three main research questions used were: How have the small and medium-sized CFOBs been managed in mainland China? What is their management style? Moreover, how different is this style compared to that of overseas CFOBs? In order to address these research questions, field case studies were conducted in six family-owned enterprises in Zhejiang province, which is located in the southeast of China. Each of the six CFOBs is a small or medium-sized enterprise and is in the manufacturing industry. Their management styles were studied through certain variables: ownership, organizational structure, leadership style, general management, production management, financial management, marketing management, human resource management, the influence of Chinese culture and personal networks.

The present study has achieved its objectives. Based on the findings, we can conclude that the six mainland CFOBs studied have implemented a unique style to manage their businesses. Many characteristics of this management style conform to those found in overseas CFOBs management as described in previous literature. In brief, the six mainland CFOBs still adopt a patriarch-based management model to manage their enterprises. Following this model, ownership and managerial control are highly concentrated in a single family. Key management positions are filled with family members in all of our cases except *Enterprise A*, and little authority is delegated to outsiders. Due to the distrust of outsiders, in all of our cases outside professional managers are rarely hired; generally, the position of technical manager is the only management position that is considered open to outsiders. The mainland CFOBs that we interviewed are not all small but most of the employees in these six enterprises are manual workers. Organizational structure is relatively simple and unstructured in all of the six cases. There are only a few levels of hierarchy within the organization, and the owners can therefore easily direct the divisions. Consequently, all the owner-managers interviewed assume the position of final decision-maker and their decision-making procedure is usually simple, with few people involved in the process. Being influenced by traditional Chinese cultural values, all the CFOB entrepreneurs interviewed have adopted a paternalistic and/or authoritarian leadership style, which aims to create a harmonious family atmosphere in the enterprise. In accordance with this leadership style, these CFOB entrepreneurs run their enterprises like their family and treat their staff like their family members. For those who assume an authoritarian leadership style, they tend to assume tight control of their enterprises and generally make all decisions by themselves without discussing these with other senior managers.

Production and marketing are the two most important functions, because these six enterprises are primarily in the manufacturing industry. They give priority to production and are strongly market-oriented. The CFOB entrepreneurs interviewed excel in finding market niches and seizing opportunities. They are capable of making quick responses to market changes and making a profit at very low profit margins. Financial management in the six mainland CFOBs is tightly controlled by owner-managers, and the financial situation of a CFOB is rarely disclosed to others. Sometimes, only the owner knows the real situation. None of the six CFOB entrepreneurs refuses to use debt; however, due to the difficulties encountered in borrowing money from financial institutions, they look to internal financing first. Human resource management has been given the least attention in the six mainland CFOBs, and human resources procedures are very informal. Even though nepotism is less prevalent, family members still hold key management positions in all of the six enterprises except *Enterprise A*. Owing to the lack of job descriptions and job specifications, recruitment, selection, and performance appraisals are very informal. Trustworthiness and loyalty play an extremely important role in almost every aspect of human resource management in all of our cases.

Chinese culture has its roots in Confucian ideologies. Being influenced by this culture, CFOBs can be viewed as the result of combining interpersonal relationships in the enterprises. All of the CFOB entrepreneurs interviewed spend a lot of time in developing personal business networks, and they usually run their enterprises within these networks. The functions of the networks are to acquire orders, exchange information, obtain necessary financing, and seek business opportunities. Moreover, under the influence of Confucian ideology, most of the CFOB owner-managers interviewed still have the tendency to assign family members to key positions and deal with people based on trust and interpersonal relationships.

Seven main differences were found between the management of the six mainland CFOBs and that of overseas CFOBs: 1) the growth of business is more important so that owners of these six CFOBs studied are willing to share ownership with outsiders; 2) since the growth of business is more important, the scale of business is not necessarily small but most of the employees in the six CFOBs studied are manual workers; 3) research and development (R&D) has attracted more attention so that all six CFOBs are no longer limited to one product and one market; 4) the use of debt is no longer an indication of a bad financial situation, and owners of the six CFOBs have begun to have a relatively clear debt policy; 5) service has attracted more attention in all six mainland CFOBs; 6) all the owners interviewed indicate that they intend to create their own brand when they have the capability; and 7) the involvement of family members is limited to management level, and thus nepotism is less prevalent among the six CFOBs.

It was also found that management innovation has begun to appear, and there is a tendency towards professional management practices in these six mainland CFOBs. As can be seen from the information obtained from the interviews, most CFOB entrepreneurs interviewed agree that their limited management knowledge and this patriarch-based management model will be obstacles to the growth of their enterprises. To overcome these obstacles, these CFOB entrepreneurs pay more attention to improving their management level; they often participate in management training courses and conferences in order to learn advanced management concepts. Some of them even consult professional management consultants and give regular management training to their senior managers. One example of this was shown in the case of *Enterprise C*. However, in order to compete in the modern economy and obtain sustained development, it is suggested that additional modern professional management practices be introduced into these mainland CFOBs. Specifically, CFOBs owner-managers should decentralize decision-making and provide more opportunities to outside professional personnel. It is also recommended that performance-based performance appraisals should be implemented to replace the current personal relationship based assessments. Additionally, the six CFOBs should decrease their short-term speculative behaviours and make strategic choices with regard to long-term plans for development.

Generally speaking, this study achieved its objectives and has made two main contributions. Firstly, this study has provided the first systematic assessment of the management model in six mainland CFOBs and confirmed that they implement a unique management model which is similar to that in overseas CFOBs. Secondly, this study identified seven differences between these two models. However, since the scope of the research was based on six enterprises in Zhejiang province, the following limitations should be explained. Firstly, as exploratory research, the results of this study are not explanatory but descriptive. We only identified seven differences between the two management models, but we did not explain the reasons which cause the differences. Secondly, the chosen cases are all in the manufacturing industry; different results may have been obtained if the cases had been chosen from different industries. Finally, due to limited time and resources, only six case studies were conducted. This small sample may limit the representativeness of our results and its generalization.

Moreover, due to the afore-mentioned limitations of this study, a more in-depth understanding may be required of the management model of mainland CFOBs, and the following recommendations are made for further research:

1) Studying the management model of CFOBs in different industries.

All of the samples used in this study were in the same industry – manufacturing. This may contribute some common characteristics to their management model because of the inherent features of this industry. Further studies should focus on CFOBs that are in different industries in order to explore whether the CFOBs management model would be different if they were in different industries.

2) Comparison of the management model in Chinese family-owned businesses and that in other countries.

This study was done to explore whether the mainland CFOBs implement a management model similar to that in overseas CFOBs. Further studies can focus on family-owned businesses in other communities and explore the difference in management models between CFOBs and FOBs in other countries, such as Canadian family-owned businesses.

3) Studying the role of female entrepreneurs in CFOBs

This research discovered an interesting phenomenon: that women entrepreneurs assume a different leadership style than their male counterparts. This phenomenon provides a basis for further studies on the management model of female managers in CFOBs. The differences in the management model between female-managed CFOBs and male-managed CFOBs could be further explored.

4) The influence of management innovation on CFOBs management model.

As our results show, management innovation has begun to appear in the six mainland CFOBs interviewed and there is a tendency towards professional management practices. This tendency uncovers a new field for further studies. The influence of management innovation and the innovation methods could be further studied.

BIBLIOGRAPHY

BIBLIOGRAPHY

Ahlstrom, D., Young, M. N., Chan, E. and Bruton, G. D., (2004). Facing Constraints to Growth? Overseas Chinese Entrepreneurs and Traditional Business Practices in East Asia, *Asia Pacific Journal of Management*, 21, (3), 263-285.

Anwar, S. T., (1996). Overseas Chinese Business Networks in Asia, *Journal of International Business Studies*, Fourth Quarter 1996, 27, (4), 811-815.

Aronoff, C. E. and Ward, J. L., (1995). Family-Owned Businesses: A Thing of The Past or a Model for the future? *Family Business Review*, 8, (2), 121-130.

Astrachan, J. H. and Shanker, M. G., (2003). Family Businesses' Contribution to the U.S. Economy: A Closer Look, *Family Business Review*, 16, (3), 211-219.

Berg, B. L., (1998). *Qualitative Research Methods for the Social Sciences*, 3rd ed. Allyn & Bacon, A Viacom Company.

Bérubé, G., (2005). Warning: shock ahead, http://www.camagazine.com/2/6/1/8/4/ index1.shtml

Bjerke, B.V., (2000). A Typified, Culture-based, Interpretation of Management of SMEs in Southeast Asia, *Asia Pacific Journal of Management*, 17, (1), 103-132.

Cadieux, L., (2004). *La succession dans les entreprises familiales :une étude de cas sur le processus de désengagement du prédécesseur,* thèse, Trois-Rivières : Université du Québec à Trois-Rivières.

Carney, M., (1998). A Management Capacity Constraint? Obstacles to the Development of the Overseas Chinese Family Business, *Asia Pacific Journal of Management*, 15, (2), 137-162.

Chen, M., (1995 a). *Asian Management Systems*. London: International Thompson

Chen, M., (1995 b). Thailand – Overseas Chinese Family Businesses: A Case Study, *East Asian Executive Reports*, 17, (11), 21-27.

Chrisman, J. J., Chua, J. H. and Sharma, P., (2003). Current Trends and Future Directions in Family business Management Studies: Toward a Theory of the Family Firm, *Coleman White Paper Series* http://www.usasbc.org/knowledge/whitepapers/chrisman2003.pdf

Chua, J. H., Chrisman, J. J. and Sharma, P., (1999). Defining the Family Business by Behavior, *Entrepreneurship Theory and Practice*, 23, (4), 19-40.

Cooper, D. R. and Schindler, P. S., (1998). *Business Research Methods*, Boston: Irwin/McGraw-Hill.

Cromie, S., Stephenson, B. and Monteith, D., (1995). The management of Family Firms: An Empirical Investigation, *International Small Business Journal*, 13, (4), 11-34.

Dana, L. P., (1999). Small Business as a Supplement in the People's Republic of China (PRC), *Journal of Small Business Management*, 37, (3), 76-80.

Davies, H. and Ma, C., (2003). Strategic choice and the Nature of the Chinese Family Business: An Exploratory Study of the Hong Kong Watch Industry, *Organization Studies*, 24, (9), 1405-1435.

De Kok, J. M-P., Uhlaner, L. M. And Thuril, A. R., (2006). Professional HRM Practices in Family Owned-managed Enterprises, *Journal of Small Business Management*, 44, (3), 441-460.

Ding, Y., (2000). Les Entreprises Familiales Chinoises, http://cref.u-bordeaux4.fr/cahiers.html

Dyer, W. G. and Handler, W., (1994). Entrepreneurship and Family Business: Exploring the Connections, *Entrepreneurship Theory and Practice*, 19, (1), 71-83.

Filbeck, G. and Lee, S., (2000). Financial Management Techniques in Family Business, *Family Business Review*, 13, (3), 201-216.

File, K. M., Mack, J. L. and Prince, R. A., (1994), Marketing to the Family Firm: A New Consideration for Business-to-Business Marketers, *Journal of Business & Industrial Marketing*, 9, (3), 64-72.

Flören, R. H., (2002), Crown Princes in the Clay – An Empirical Study on the Tackling of Succession Challenges in Dutch Family Farms. Assen: Vam Gorcum. http://www.nyenrode.nl/download/research/familybusiness_in_the_netherlands.pdf

Fredy-Planchot, A., (2002). La Gestion des Ressource Humaines dans les PME à Caractère Familial. **Dans Caby, J. And Hirigoyen, G., (Éds), La Gestion des Entreprises Familiales (Chapitre 9) (pp. 193-204)**, Paris : Economica.

Fu, W-G., (2004), *The Problems facing by Chinese Family Business*. Beijing: JingJi RiBao Press.
付文阁 （2004）中国家族企业面临的紧要问题，北京：经济日报出版社

Gallo, M. A. and Vilaseca, A., (1996). Finance in Family Business, *Family Business Review*, 9, (4), 387-401.

Gatfield, T. and Youseff, M., (2001). A Critical Examination of and Reflection on the Chinese Family Business Unit and the Chinese Business Clan, *Family Business Review*, 14, (2), 153-158.

Gersick, K. E., Davis, J. A., McCollom Hampton, M. and Lansberg, I., (1997). *Generation to Generation: Life Cycles of the Family Business*, Boston: Harvard Business School Press.

Guo. Y., (2003). The Definition of Family Firm, *HuXiang LunTan*, 4, 70-71.
郭勇，（2003），家族企业定义探析，*湖湘论坛*， 2003 年第 4 期

Handler, W. C., (1989). Methodological Issues and Considerations in Studying Family Business, *Family Business Review,* 2, (5), 257-276.

Hwang, K. K., (1990). Modernization of the Chinese Family Business, *International Journal of Psychology*, 25, (3-6), 593-618.

Kao, J., (1993). The Worldwide Web of Chinese Business, *Harvard Business Review*, 71, (2), 24-36.

Kirkbride, P. S. and Tang, S. F-Y., (1992). Management Development in the *Nanyang* Chinese Societies of South-east Asia, *Journal of Management Development*, 11, (2), 54-66.

Lee, J., (1996). Culture and Management – A Study of Small Chinese Family Business in Singapore, *Journal of Small Business Management*, 34, (3), 63-67.

Lee, J. S-K. and Tan, F., (2001). Growth of Chinese Family Enterprises in Singapore, *Family Business Review*, 14, (1), 49-74.

Leung, F. F-L. E., (1995). Overseas Chinese Management: Myths and Realities, *East Asian Executive Reports*, 17, (2), 6-13.

Li, J., Lam, K. and Fu, P. P., (2000). Family-Oriented Collectivism and Its Effect on Firm Performance: A Comparison between Overseas Chinese and Foreign Firms in China, *The International Journal of Organizational Analysis*, 8, (4), 364-379.

Li, S-M. and Wang, C-J., (2004). The Definitions and Models of Family Enterprise, *Journal of Sun Yatsen University (Social Science Edition),* 44, 66-70.
李善民，王陈佳（2004），家族企业的概念界定及其形态分类，*中山大学学报（社会科学版）,* 第 44 卷，第 66—70 页。

Litz, R. A., (1995). The Family Business: Toward Definitional Clarity, Family Business Review, 8, (2), 71-81.

Lussier, R. N. and Sonfield, M. C., (2004). Family Business Management Activities, Styles and Characteristics: A Correlational Study, *Mid-American Journal of Business, 19*, (1), 47-53.

Mason, L., (2002). *Qualitative Researching,* Sage Publications, Inc.

Miles, M. B. and Huberman, A. M., (2003). *Analyse des Données Qualitatives*, Traduction de la 2e édition Américaine, Paris : De Boeck.

Pérez de Lema, D. G. and Duréndez, A., (2007). Managerial Behaviour of Small and medium-sized Family Businesses : An Empirical Study, *International Journal of Entrepreneurial Behaviour & Research*, 13, (3), 151-165

Pistrui, D., Huang, W. Oksoy, D. Zhao, J. and Welsch, H., (2001). Entrepreneurship in China: Characteristics, Attributes, and Family Forces Shaping the Emerging Private Sector , *Family Business Review*, 14, (2), 141-152.

Poutziouris, P., Wang, Y. and Chan, S., (2002). Chinese Entrepreneurship: the Development of Small Family firms in China, *Journal of Small Business and Enterprise Development*, 9, (4), 383-399.

Redding, S. G., (1993). *The Spirit of Chinese Capitalism.* New York: Walter de Gruyter.

Reid, R. S. and Adams, J. S., (2001). Human Resource Management – A Survey of Practices within Family and Non-family Firms, *Journal of European Industrial Training*, 25, (6), 310-320.

Ritchie, J. and Lewis, J., (2003). *Qualitative Research Practice: A Guide for Social Science Students and Researchers*, SAGE Publications, Inc.

Robson, C., (2002). *Real world research: a resource for social scientists and practitioner-researchers*, Blackwell Publishers ltd.

Rossman, G. B. and Rallis, S. F., (1998). *Learning in the Field: An Introduction to Qualitative Research*, SAGE Publications, Inc.

Schlevogt, K-A., (2001). The Distinctive Structure of Chinese Private Enterprises: State versus Private Sector, *Asia Pacific Business Review*, 7, (3), 1-33.

Shanker, M. C. and Astrachan, J. H., (1996). Myths and Realities: Family Businesses' Contribution to the US Economy—A Framework for Assessing Family Business Statistics, *Family Business Review*, 9, (2), 107-123.

Sheh, S. W., (2001). Chinese Culture Values and their Implication to Chinese Management, *Singapore Management Review*, 23, (2), 75-83.

Steier, L. P., Chrisman, J. J. And Chua, J. H., (2004). Entrepreneurial Management and Governance in Family Firm: An Introduction, *Entrepreneurship Theory and Practice*, 28, (4), 295-303.

Tabone, N. and Baldacchino, P., (2003). The Statutory Audit of Owner-managed Companies in Malta, *Managerial Auditing Journal*, 18, (5), 387-398.

Tagiuri, R. And Davis, J., (1996). Bivalent Attributes of the Family Firm, *Family Business Review*, 9, (2), 199-208.

Tan, W. L. and Fock, S. T., (2001). Coping with Growth Transitions: The Case of Chinese Family Business in Singapore, *Family Business Review*, 14, (2), 123-140.

Trinquecoste, J. F., (2002). Marketing et Entreprises Familiales: une Conjonction Originale. **Dans Caby, J. And Hirigoyen, G., (Éds), La Gestion des Entreprises Familiales (Chapitre 11) (pp. 229-243)**, Paris : Economica.

Tsang, E. W-K., (2001). Internationalizing the Family Firm: A Case Study of a Chinese Family Business, *Journal of Small Business Management*, 39, (1), 88-94.

Tsang, E. W-K., (2002). Learning from overseas venturing experience: the case of Chinese family businesses, *Journal of Business Venturing,* 17, (1), 21–40.

Tsui-Auch, L. S., (2004). The Professionally Managed Family-ruled Enterprise: Ethnic Chinese Business in Singapore, *Journal of Management studies*, 41, (4), 693-723.

Weidenbaum, M., (1996a). The Bamboo Network: Overseas Chinese Commercial Families, *Vital Speeches of the Day*, 62, (22), 703-704.

Weidenbaum, M., (1996b). The Chinese Family Business Enterprise, *California Management Review*, 38, (4), 141-156.

Westhead, P. and Cowling, M., (1998). Family Firm Research: The Need for a Methodological Rethink, *Entrepreneurship Theory and Practice*, 23, (3), 31-56.

Whyte, M. K., (1996). The Chinese Family and Economic Development: Obstacle or Engine? *Economic Development and Cultural Change,* 45, (1), 1-30.

Wong, B., McReynolds, B. S. and Wong, W., (1992). Chinese Family Firms in the San Francisco Bay Area, *Family Business Review*, 5, (4), 355-372.

Wong, S. L., (1993). The Chinese Family Firm: A Model, *Family Business Review*, 6, (3), 327-340.

Yeung, H. W-C., (2000a). Limits to the Growth of Family-Owned Business? The Case of Chinese Transnational Corporations from Hong Kong, *Family Business Review*, 13, (1), 55-70.

Yeung, H. W-C., (2000b). Economic Globalization, Crisis and the Emergence of Chinese Business Communities in Southeast Asia, *International Sociology*, 2000, 15, (2), 266-287.

Yeung, H. W-C. and Soh, T. M., (2000). Corporate Governance and the Global Reach of Chinese Family Firms in Singapore, *Seoul Journal of Economics,* 13, (3), 301-334.

Yin, R.-K., (1994). *Case study research: design and methods*, 2nd ed, Sage Publications, Inc.

Yu, T. F-L., (2001). The Chinese Family Business as a Strategic system: an Evolutionary perspective, *International Journal of Entrepreneurial Behaviour*, 7, (1), 22-40.

APPENDIX <<A>>

OVERVIEW OF LITERATURE ON CHINESE FAMILY-OWNED BUSINESS MANAGEMENT

Appendix <<A>>

Overview of literature on Chinese family-owned business management

Characteristics of CFOB management	
Ahlstrom *et al.* (2004)	• Family owned and operated
	• Simple organizational structures, networks and information control
	• Centralized governance and decision making
	• Internal financing
	• Lack of advertising and branding
	• Little or no research and development (R&D)
Bjerke (2000)	• Family-based and centralized control to minimize bureaucracy
	• Highly centralized decision-making
	• Planning is more personalized, opportunistic and intuitive
	• Lacks qualified person to apply a formal appraisal system
	• Promotes people from inside based on the subordinate's reliability and trustworthiness rather than on capability and experience
	• Gives priority to production
	• Denies institutional credit and internal financing
	• Excels in cash management and relies on cash transactions
	• Succeeds in finding market niche
	• Less knowledge of marketing practises and less use of advertising and promotion
	• Service is less important
	• Emphasis on Chinese cultural values
Carney (1998)	• Informal organizational structure
	• Centralized decision-making
	• Top management positions are filled by family members
	• Operates business within extensive networking
Chen (1995a)	• Single owner and relative small in size
	• Informal organization with a narrow-span management structure
	• The single owner has full responsibility of all managerial process
	• No-debt policy for financial management
	• Paternalistic leadership
Davies & Ma (2003)	• CEO dominance
	• Paternalism – didactic and paternalism leadership
	• Information networking
	• Personalism of business networking
	• Short-termism

Ding (2000)	• Centralized decision-making • Weak risk control • Paternalistic leadership -- commitment to personal welfare • Operating the business depends on personal network • Emphasis on Chinese traditional culture values
Gatfield & Youseff (2001)	• Absolute family control and high concentralization • Relatively small • Simple in structure • Built on the foundation of Confucian ideology
Kirkbride & Tang (1992)	• High levels of centralization of decision making with heavy reliance on the owner-managers • A lack of bureaucratic regulation • A fairly loose and fluid organizational structure • A leadership style which is both autocratic and paternalistic • The existence of nepotism in the entrepreneurial and managerial cadre • Extensive family ties of obligation and duty • The existence of personalized networks of external linkages
Lee (1996)	• Human-Centeredness • Family-Centeredness • Centralization of power • Small size
Redding (1993; 1995)	• Small scale • Simple organizational structure • Centralized decision-making • Family ownership and control • Paternalistic organizational climate • Personalistic networking • Cost-conscious and efficient • Discouragement of professional management • Limited ability to support growth
Tsang (2002)	• Authority and control are highly centralized • Emphasis on Chinese cultural values • The internal system of the coordination and control is highly personal • Uses extensive networking and relational contracting • Tight control on financial and production management
Schlevogt (2001)	• High centralizaiton • Low degree of bureaucracy • Emphasis on Chinese cultural elements • Small size

Sheh (2001)	• Paternalistic leadership
	• Existence of nepotism
	• Relationship or people-oriented human resource management
	• Strong emphasis on hierarchical order that resembles that of family
	• Simple and informal organizational structure
	• Emphasis on personal relationships (*Guanxi*)
	• Influence of traditional Chinese culture
Weidenbaum (1996b)	• Family ownership and top management positions filled by family members
	• Authoritarian leadership style
	• High degree of flexibility accompanied by intense managerial effort
	• Centralized control and informal transactions
	• Simple organizational structure
	• Small in size
	• Great importance given to developing and maintaining *Guanxi* (relationships)
Wong *et al.*, (1992)	• Family ownership
	• Internal financing
	• Prefers hiring family members
	• Paternalistic leadership which emphasizes a more harmonious business climate
Yeung (2000a)	• Centralization of power through the domination of family ownership and control
and	• Small size and relatively simple organizational structure
Yeung & Soh (2000)	• Normally, focuses on one product or market
	• Lack of vertical integration and low level of specialization
	• A relative lack of ancillary departments
	• Less standardization of activities and fewer routine procedures
	• Strong overlap between ownership and control
	• Linked to the environment with personalized networks
	• Very sensitive to matters of cost and financial efficiency
	• Relatively weak in terms of creating large-scale market recognition for own brands, especially international brand names
	• Commonly linked, strongly but informally, with related and legally independent organizations handling key functions, such as parts supply or marketing
	• Subject to limitations of growth and organizational complexities
	• High degree of strategic adaptability
Yu (2001)	• Common ownership of family property
	• Small in size; organizational structure is highly flexible
	• Existence of nepotism
	• Paternalistic style of leadership
	• Emphasis on Chinese culture
	• Engages extensively in business networks and nepotism

APPENDIX << B >>

LIST OF SPECIFIC INTERVIEW QUESTIONS

Appendix << B >>

List of specific interview questions

General information about the enterprise

1) Enterprise's name:
2) Enterprise's address:
3) The enterprise's sector of activity:
4) Date enterprise founded:
5) Most recent annual sales turnover:

General information about the interviewee:

1) Name:
2) Position in the enterprise:
3) Ownership or shareholdings in the enterprise:
5) Length of employment/ownership in the enterprise:
6) Relationship with the owner, if he/she is not the owner:

Theme 1: Ownership and Control

1) What kind of business do you run?

☐ Sole proprietorship ☐ Partnership ☐ Close corporation ☐ Others: ____________

2) Is the ownership of your business controlled by your own family? If not, explain the ownership structure in your business.
3) Do you think that family ownership is important to your business? Will you transfer a part of ownership to outsiders if it is necessary for the growth of your business?
4) Is the owner-manager in full control of events in your business?
5) Are the top management positions in your business filled with family members and/

or close friends in your enterprise?

Theme 2: Organizational Structure

1) Do you think there is a formal or explicit organization chart in your business?
2) Do you think there is a complete set of rules and systems in you business? Are the job specifications clear? Is the role of each position clearly assigned and the responsibility for each position well designed?
3) Have you implemented any management system (for example, ISO 9001) in your business? Do you think it is important to your business? If yes, please explain:

Theme 3: Decision-making

1) Who makes the major decisions in your business?

☐ Owner ☐ Owner and his/her family member ☐ Professional manager

☐ Others: ______

2) Is anything written down in the process of making a large-scale decision?
3) What is the principle you follow when you make a major decision (for example, making an investment in a new project)?
4) How important to you is previous personal experience when you are making a decision?

Theme 4: Leadership style

1) Chinese entrepreneurs are usually said to adopt an autocratic and paternalistic leadership style. Do you agree with this or not? Explain:
2) Do you regard your employees as your family members?
3) Do you think that a family atmosphere exists in your business?
4) Will you fire subordinates based on unsatisfactory performance?

5) Do you mind sharing business information with your subordinates?

Theme 5: Financial management

1) Who is the financial manager in your business?

☐ The owner himself/herself ☐ Core family member ☐ Professional manager

2) What are the common financing channels in your business?
3) Do you prefer internal financing, for example, borrowing money from relatives and/or friends, when you need extra capital?
4) Do you have difficulty getting loans from financial institutions?
5) Will you make long-term loans from financial institutions for future investment when your business needs to expand?
6) To what extent do you agree that the use of debt is an indication of a bad financial situation in your business?

Theme 6: Human resources management

1) How many employees (excluding the owner) are in your business?

☐ Full time: __________ ☐ Part time: __________

2) How many family members (excluding the owner) work in you business? Are they paid a salary?
3) What kind of position do family members hold in your business?

☐ Leader: __________ ☐ Worker: __________

4) Do you think it is necessary to employ professionals in your business? If so, what position will they take?
5) Have you employed outside professional managers in your business? If not, is the manager a family member?
6) What are the criteria for recruiting employees?

☐ Trustworthiness ☐ Loyalty ☐ Merit ☐ Competence ☐ Others: ________

Theme 7: Marketing management

1) Do you think marketing management is as important as other management functions, such as financial management, production management etc. to your business?
2) Do you think brand publicity is important to your business?
3) How do you expand the market share of your business? What are the common methods you use for market expansion?
4) What is the role that a personal extensive network plays in market expansion?
5) Do you think sales service is important in your business?

Theme 8: Production management

1) What is the productive structure in your business? How many kinds of products do you manufacture?
2) Do you think R&D is important to your business? Do you have an R&D department in your business? If not, explain:

Others

1) Do you think traditional Chinese ideology, such as Confucianism, has influenced your management style? If so, explain
2) How important to you are personal relationships as you run your business?
3) Do you have a formal strategic plan for the future expansion of your business?
4) Do you have any succession plan? Who do you think will be the next manager of your business?

☐ Next generation ☐ Other family members (such as brother, cousin etc.) _______

☐ Non-family members, for example, an outside professional manager: _________

APPENDIX << C >>

INTERVIEW SCHEDULE

Appendix << C >>

Interview Schedule

Information about enterprise interviewed	***Personal note***
Business type (ownership structure)	
The sector of activity	
Number of employees (full time, part time)	
Recent annual sale turnover	
Date enterprise founded	
History of enterprise since its foundation (development process, important events, etc.)	
Information about interviewee	
Name and position in the enterprise	
Ownership or shareholding	
Length of employment/ownership in the enterprise	
Relationship with owner, if is not the owner	
General information about management	
Leadership style	
Organizational structure (organizational chart, job setting, management system, etc)	
Involvement and importance of personal network	
Information about general management function	
Decision-making (who, how, principle followed, etc.)	
Daily control mechanism (who, how)	
Planning	
Information about production management	
Production structure (kind of products)	
The importance of R&D	
Information about human resources management	
Involvement of family members (number, position, etc.)	
Importance of hiring professional outside manager (why)	
Recruitment of employee (criteria, process, etc)	
Appraisal of performance (criteria, how, etc.)	
Information about financial management	
Financial manager (who, relationship with owner)	
Common financing channels (debt policy, process of financing)	
The attitude towards financial situation	
Information about marketing management	
Importance of brand and service	
Sales channels	
Methods of market development (niche, promotion, expansion, etc)	
Others	
Principal cultural values (influence of Chinese cultural values)	
Plan for succession	
Strategy for future	