

# **Chinese Values and SME Strategy in the Chinese Economic Transition: How Close Are They to the West?**

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## **Abstract**

The economic reform in China is creating a cultural context in which both Western and Eastern value systems relevant to business co-exist. Although the influence of Western culture on overseas Chinese owner-managers is discussed in the literature, it is unclear as to what extent Chinese CEOs on the mainland exhibit entrepreneurial as opposed conservative values and how their positions on the entrepreneurial-conservative continuum affect their strategic decisions. These issues are addressed in this study and interrelationships among the Rokeach and Chinese personal value systems assessed. The findings portray the Chinese CEO as having a dual value system comprising both entrepreneurial and conservative values both of which are necessary for successful business operation in the Chinese context. The findings reveal that the entrepreneurial-conservative continuum does not apply as simply to the mainland Chinese CEOs as depicted in the Western literature and that the association between Chinese values and strategies is more complex.

*Key Words:* Chinese values, entrepreneurship, Strategy, SME

## **Introduction**

The economic transition in China has created a business context in which both Chinese and Western cultural values co-exist and/or converge (Matthews 2000, Guan and Dodder 2001), ultimately creating a mix of Chinese and Western personal values among Chinese CEOs (Lu 2003). The level of Western as opposed Chinese personal values exhibited by Chinese CEOs depends on their individual circumstance, including the extent of contact with Western culture. The literature portrays Chinese living outside the mainland as highly entrepreneurial and successful (Yu 2001). Researchers such as Li (2006), Ward *et al* (2002), Zapalska and Edwards (2001), all report high levels of entrepreneurial characteristics among Chinese family business CEOs residing outside the mainland. However, others argue that Chinese values, based on collectivism, are basically not relevant to entrepreneurship, an individualistic concept (Kirby and Fan 1995). The extent to which Chinese CEOs on the mainland exhibit entrepreneurial values and the influence of these values on their business strategies are questions yet to be addressed in the literature. Research on the association between the 'bone deep' Chinese values and 'skin deep' Western values of Chinese

CEOs of SMEs on the mainland, and how the two together affect their strategic orientations is rare (Alon 2003, Kirby and Fan 1995), especially in the current context of transition from a planned to market economy. These are the issues addressed in this research.

Answers to the above questions cannot be inferred from the existing literature which is based mainly on SMEs outside the mainland (Tan 1996). This is because there are major differences between Chinese SMEs outside the mainland and those on the mainland. First, those outside the mainland such as Singapore and Hong Kong operate in near 'market' economies where entrepreneurial values and business strategies have been well assimilated by their CEOs. The values and business strategies of Chinese CEOs outside the mainland are likely to be close to those of their Western counterparts. In contrast, CEOs on the mainland started their businesses in an economy closer to a planned than a market economy. Second, the majority of research on Chinese SMEs outside the mainland is based on family businesses, totally owned by one family (Yu 2001, Sheh 1993, 2001). In contrast, SME ownership structure is more complex for Chinese SMEs on the mainland (Chen, Li and Matlay 2006, Shrivastava 2001). Unlike their overseas counterparts, the majority of mainland CEOs acquired their businesses in ways other than by inheritance or purchase because there were no private businesses before the economic reform. There are therefore clear gaps in the literature in this area.

## **Definitions**

***SME in China.*** The definition of SME in this study conforms to that issued by the government in 2003 (National Development and Reform Commission, 2003). SMEs are identified by the total number of employees on their payroll and the cut-off points vary by industry sector. In manufacturing such as the textile industry, enterprises with less than 300 employees are classified as small, while those with employee numbers between 300 and 2000 are grouped as medium-sized firms.

***CEO.*** In this study, the CEO is the major decision maker in a SME. It is often the case in the textile industry in Shaoxing, where this study was conducted, that there is more than one owner for a SME. This is because during the initial stages of the economic reform, township and village enterprises (TVEs) were started owned by towns or whole villages and managed by CEOs appointed by the town council or collective shareholders. Over time the CEOs have acquire majority shares in these TVEs. Another form of SME in this industry is the foreign joint venture partly owned by the Chinese CEOs. Finally, the large capital investment required in this industry means business partner(s) are needed to reduce the capital burden so that a partnership

ownership structure is common. Although the CEOs do not solely own these enterprises, they are majority shareholders and major decision-makers.

## **Literature Review**

### ***Personal Values and Strategies Behaviour***

There is general consensus that values provide a powerful explanation of human behaviour because they serve as standards or criteria for evaluating information and assessing conduct (Sagiv and Schwartz 1995, Williams 1968, England 1967) and form the basis of individual perception (England 1967). Personal values therefore determine management decisions and actions. Several researchers have studied the extent to which personal values influence management decisions and behaviour (for example, Nonis and Swift 2001, Cannella and Monroe 1997, Roccas *et al* 2002, Kotey and Meredith 1995). Guth and Tagiuri (1965) argue that since personal values are an intrinsic part of personal life and behaviour, managers must use them as criteria in making management decisions. The authors conclude that personal values are "one of the determinants of a manager's concept of what his company strategy ought to be" (cited from Barnett and Karson 1987: 372). Freeman *et al* (1988) share this position asserting that values have always been a crucial element in models of strategic management and that they are the reasons for and causes of strategic behaviour. The authors contend that an intentional business action such as decision-making results from certain desires and beliefs both of which are motivated by the need to satisfy certain values. Andrews' (1980) model (the Harvard Policy Model) also emphasise the central role of values in understanding business strategy. Researchers have since investigated empirically the association between the personal values of business owners and the strategies they adopt in operating their businesses. This association has been found to be especially strong for SMEs where the owner-manager's desires and values are closely aligned with business activities and outcomes (Covin and Slevin 1989, Kotey and Meredith 1997, Dess *et al* 1997).

### ***Entrepreneurial Values, Proactive Strategic Orientation, and Performance of SMEs***

Entrepreneurial values such as innovation, individualism, ambition, achievement, reliability, and independence are widely believed to facilitate a proactive strategic orientation and pursuit of emerging market opportunities (Miles and Friesen 1982, Covin and Slevin 1989), ultimately leading to above average business performance (Kotey and Meredith, 1997). In contrast, conservative personal values are linked with reactive strategies and lower performance. England (1975) reports that "successful managers favour

pragmatic, dynamic, achievement-oriented values while less successful managers prefer more static and passive values" (p. 7). Miller and Friesen (1982) and Miller (1983) adopt a contingency approach grouping small firms in different industry sectors into entrepreneurial and conservative firms. The former are found to exhibit a proactive strategic orientation (innovating to achieve competitive advantages), whilst the latter are reactive in the strategies employed. Covin and Slevin (1989) report that in an uncertain environment, entrepreneurial SMEs are likely to achieve higher performance when they adopt proactive strategic postures. Similarly, Gray (1997) notes a positive relationship between proactive business strategy and business growth.

In contrast, reactive or conservative strategies are linked with risk-averseness and lack of innovation in business decisions (Covin and Slevin 1989). Businesses with reactive strategic orientations are usually imitators, following leaders in their industries, but with inconsistent activities in their strategies. They tend to compete on the basis of lowest market price and highest quality (Kotey and Harker 1998). Since owner-managers are the major decision makers in their businesses, the proactive or reactive activities of the business can be ascribed to their entrepreneurial or conservative values respectively (Morris and Lewis 1995). While the literature presents these extreme positions in strategic orientation, in reality, all business activities cannot be classified as completely proactive or reactive. Entrepreneurs may adopt a hybrid strategy within the proactive-reactive continuum (Kotey and Harker 1998) because it is the best position within the industry at the time. Morris and Lewis (1995) point out that entrepreneurship is not an either/or determination, but a question of "degree" and "amounts". Thus, for purposes of this research, CEOs' strategic orientations are assessed by the level of pro-activeness portrayed in each set of functional area activities. Whilst the positive association between entrepreneurial values and proactive strategic orientation is well established in the Western literature, few authors have vigorously examined the issue either empirically or theoretically in Chinese SMEs (Li 2006, Luo 1999). It is questionable whether the conclusions of the Western literature apply in the Chinese context, especially for SMEs on the mainland. Thus the following hypotheses are proposed:

*Hypothesis 1: There is a positive association between entrepreneurial values and proactive strategies for Chinese CEOs of SMEs on the mainland.*

*Hypothesis 2: Chinese CEOs of SMEs on the mainland with conservative personal values will be less proactive in strategic orientation.*

### **Western Culture in Chinese Transitional Economy**

Personal values can be shaped by contact with other cultures (Berry *et al* 2002, Lu 2003, Guan and Dodder 2001). Berry *et al* (2002) argue that one result of the contact with and influence of another cultures is that people from the non-dominant culture may become transformed and form new ethno-cultural groups with a new set of values. Guan and Dodder (2001) conclude that cross-cultural contacts lead to changes in personal values and that the longer the duration of the contact, the greater the changes become. From this point of view, although Chinese values will be dominant in any study of personal values of the Chinese CEOs of SMEs on the mainland, some Western values may be visible, particularly, for Chinese CEOs who have experienced Western culture through education, travel and/or business. In general, the transition to an open economy, involving increased globalisation and migration, has resulted in Chinese traditional values and culture being influenced by Western culture.

The Western influence, however, is reflected in material things and is merely “skin deep”, while the Chinese still maintain their traditional values in the way they think and behave, so that the Chinese values remain “bone deep” (Lu 2003). For example, conflict is often seen as a way of developing understanding and respect for one another in the West. In China, people prefer to avoid conflict by enhancing the relationship and developing harmony (Alon 2003). Even with differences in culture and values between the East and West, researchers suggest that Eastern and Western cultures can co-exist in an industrialized nation (Matthews 2000, Guan and Dodder 2001, Hofstede and Bond 1988, Alon 2003). This is because the values underlying the two cultures partly overlap. For example, by comparing the two value dimensions: Hofstede’s (1980) value dimensions and Chinese value survey (CVS) developed by Chinese Cultural Connections (1987), Hofstede and Bond (1988) find that three of the four Hofstede’s dimensions (that is, power distance, uncertainty avoidance, and masculinity) significantly correlate with three of their four CVS dimensions (integrity and tolerance, Confucian ethos, loyalty to ideals and humanity, and moderation and moral discipline). This means that both cultural systems may complement each other. Unfortunately, few studies have examined the extent to which CEOs in Chinese SMEs exhibit both Chinese and Western values relevant to business management.

### ***Chinese Values Associated with Business Management***

Research investigating the associations between Chinese values and business performance among overseas Chinese family businesses (for example, Kwan and Ofori 2001, Ward *et al* 2002, Zapalska and Edwards 2001, Sheh 1993, 2001), identify four distinct personal value dimensions as critical to business operation and performance: familism (“家庭观念” in

Chinese), humanism (“人本主义” in Chinese), hierarchy (“等级观念” in Chinese), and personal relationships (“人际关系” or *guanxi* in Chinese). Although *Guanxi* plays a critical role in business operation in China, particularly in building business networks, there is controversy about whether or not it can be regarded as a personal value dimension. In the CVS, *guanxi* is not recognized as a value. Rather, many researchers treat *guanxi* as a socio-cultural factor within the Chinese context (for example, Carlisle and Flynn 2005, Huang and Bin 2006, Park and Luo 2001, Chen and Chen 1998, Chow 1997). In this study *Guanxi* is excluded as a personal value dimension.

*Familism* is an important value associated with Confucianism (Yu 2001, Lee 1996, Lu 2003). “Family” as a Confucius’ concept is broad – the whole nation can be viewed as a family (the so-called “grand socialist family”) and every organization is also a family. From this point of view, all SMEs are different families. Within a family, there are different roles: organizational leaders are “parents” and employees are “other members”. The activities and personal lives of employees are closely connected to those of the businesses in which they work. The managers of these businesses also function as parents in extended families, responsible for both managing the business and solving employee’s personal problems (Xing 1995). Thus, in modern Chinese society, the Chinese traditional family concept has been transformed into “familism”, emphasizing moral values and obligations of all members (Zapalska and Edwards 2001). Values such as loyalty, solidarity, patriotism, filial piety and trustworthiness underlie the familism dimension of Chinese values (Sheh 1993, 2001).

In pursuit the familism values, Chinese CEOs prefer to recruit family members, relatives, and friends, so that nepotism is high in Chinese SMEs (Zapalska and Edwards 2001). This behaviour is based on the principle of value identity and is consistent with the Confucian values that stress collectivism and group behaviour (Sheh 2001). Preference for family members as employees in SMEs enables sharing collective ideas and ensures group harmony.

The majority of overseas Chinese SMEs are family owned (Tsai *et al* 2006, Yen 1996). The influence of the family in business is very powerful because CEOs are also family members (Yen 1996) and the business is perceived as an extension of the CEO’s family. The family members are required to preserve and increase wealth, status, and social recognition and pass them on to future family members and businesses (Zapalska and Edwards 2001). This cultural legacy is important in shaping the Chinese managerial style. Familism reduces the incentive to be individually opportunistic and may

discourage entrepreneurship.

In the West CEOs of small family businesses are also perceived as conservative, preferring to keep their businesses small so they can maintain control within the family (Kotey 2005). Nevertheless, family businesses have been found to be more efficient but exhibit equal performance to non-family firms (Anderson and Reeb, 2003). Since conservative values are associated with a less proactive strategic orientation, it is expected that Chinese CEOs who rate high on familism will exhibit conservative Western values and will be less proactive in strategic orientation. Thus, it is hypothesized as follows:

*Hypothesis 3a: Familism is positively associated with Western conservative personal values for Chinese CEOs of SMEs on the mainland.*

*Hypothesis 3b: Familism correlates negatively with Western entrepreneurial personal values for Chinese CEOs of SMEs on the mainland.*

*Hypothesis 3c: Chinese CEOs of SMEs on the mainland who rate high on familism will be less proactive in strategic orientation.*

*Humanism* is another important Confucian value concerning human-centeredness, which covers values such as courtesy, magnanimity, good faith, diligence, and kindness (de Bary *et al* 1960). In overseas Chinese SMEs a CEO's humanism values will ultimately develop into a cordial, relaxed and friendly relationship among fellow employees (Sheh 2001). The downplaying of self and upgrading of relationships is highly valued. Based on humanistic values, seniority and good behaviour rather than good performance plays an important role in employee promotion (Sheh 1993). Humanism is very helpful in building a harmonious work environment since conflicts between people at different levels are avoided.

Whilst humanism is also important to business in the West, it is overlaid by the well-established legal systems that caution the separation of personal relationships from business relationships. Business relationships in the West are governed by contracts that spell the rights and obligations of each party and ensure that transactions are at arms length. Excessive humanism and over reliance on relationships for business transactions are contrary to Western entrepreneurship. However, Kotey and Meredith (1997) report that small business owners who rate high on entrepreneurial values also rate high on humanism and attend to the welfare of their employees. These businesses achieve above average performance. The four values of Confucian Dynamism developed by Hofstede and Bond (1988), *persistence (or perseverance)*, *ordering relationships*, *having a sense of shame* and *thrift* reflect humanism and have been found to be associated with individuals or nations that desire success. It appears therefore that the humanism value dimension has both Western entrepreneurial and conservative elements.

Based in the above discussions the following hypotheses are developed for testing:

*Hypothesis 4a: Humanism is positively associated with Western entrepreneurial personal values for Chinese CEOs of SMEs on the mainland.*

*Hypothesis 4b: Humanism correlates positively with Western conservative personal values for Chinese CEOs of SMEs on the mainland.*

*Hypothesis 4c: Chinese CEOs of SMEs on the mainland who rate high on humanism are proactive in strategic orientation.*

Referred to as ordinal relationship, *hierarchy* is another core value of Confucianism that influences Chinese management. As mentioned above, the majority of Chinese SMEs are family businesses with strong emphasis on hierarchical order based on the family structure (Zapalska and Edwards 2001, Sheh 2001). This family hierarchical structure is replicated in business, encouraging CEOs to sometimes abuse the excessive power invested in them. CEOs must be respected and looked up to as the source of all power within the business. They must also maintain a high social status, a situation which Hellriegel *et al* (2001) refer to as "high-context culture". Employees should show loyalty and obedience to their supervisors/superiors and the latter should in return look after and care for employees' welfare. Thus, everyone in an organisation understands the centre of power.

In the West, hierarchical structures involving bureaucracy and red-tapism are seen to stifle creativity and to deter entrepreneurship (Burgelman, 1983). However, centralisation of decision-making power with one or few persons enables speedy and proactive response to opportunities and threats. Entrepreneurship is also associated with the need for and the exercise of power (McClelland 1961). The need for power is consistent with entrepreneurial values such as individualism, independence, and autonomy. However, the abuse of power vested in the entrepreneur usually has negative consequences for the business. In addition, opportunities for performance improvement are lost when employees are excluded from the decision-making process (Sheh 2001). It appears therefore that the Chinese hierarchy value dimension could correlate either positively or negatively with the Western entrepreneurial value dimension, depending on how the power vested in the CEO is used. However, the Chinese hierarchy value dimension does not reflect a Western conservative value position. The hypotheses below are developed for testing:

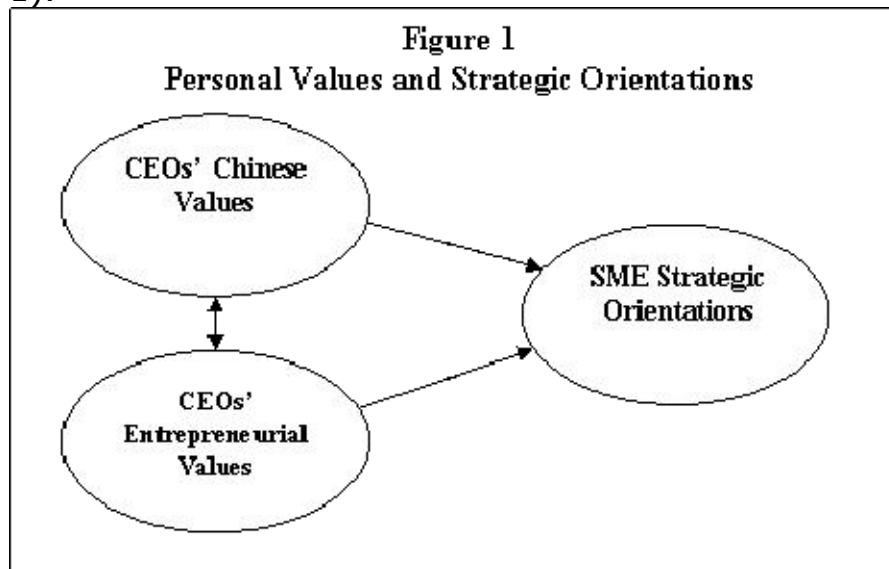
*Hypothesis 5a: The Chinese hierarchy value has a positive association with Western entrepreneurial personal values for Chinese CEOs of SMEs on the mainland.*

*Hypothesis 5b: The Chinese hierarchy value correlates negatively with*

Western entrepreneurial personal values for Chinese CEOs of SMEs on the mainland. .

*Hypothesis 5c: Chinese CEOs in SMEs who rate high on hierarchy are proactive in strategic orientation.*

The above discussions are summarized in the theoretical framework (Figure 1).



## **Research Method**

### ***Sampling and Data Collection***

The study is based on SMEs in the textile industry in the Shaoxing region of Zhejiang province. The local textile industry comprises 5,230 firms, the majority SMEs. It is difficult to collect a large-sample at firm-level in China because data collection is looked upon with suspicion and is not widely accepted (Davis and Walters 2004, Lucas *et al* 2001). For this study, assistance and support was sought from the Shaoxing Textile Engineering Association (STEA), a semi-official organization affiliated with the Shaoxing Economic Development Bureau, to request data from a representative sample. This is an approach often used by Chinese researchers as such cooperation reduces possible doubt and cost (for example, Luo and Chen 1997, Davis and Walter 2004, Tan *et al* 2006, Wu and Leung 2005). STEA has more than 2,900 members from the local textile industry and often organizes seminars and an annual textile exhibition. It is evident that cooperation with STEA would increase the return rate of the questionnaire.

In this study, data was collected through a structured questionnaire with four sections comprising: a modified version of Rokeach (1973) personal value instrument, the Chinese value instrument, business strategies, and business and owner-manager details in sections A, B, C and D respectively. The questionnaire was distributed to CEOs of SMEs at a conference organized by STEA. More than 500 senior managers attended the conference. On registration, each delegate was provided with a questionnaire in the conference kit and requested to complete and return it to the reception desk at the end of the conference. Delegates who were not CEOs such as Vice CEO or CFO were advised not to complete the questionnaire. In all, 532 questionnaires were distributed to the conference delegates and 381 questionnaires were returned, a response rate of about 72%. Questionnaires with incomplete responses were excluded and 309 out of 381 questionnaires were used in the analyses.

### ***Measurement of Variables***

***Personal Values.*** In this study, values selected from both the Rokeach (1973) personal value instruments (PVS), and the Chinese Value Survey (CVS), were used to measure CEOs' personal values. PVS is believed to be a simple and efficient means of discovering the relative importance of values within and among individuals (Gibbins and Walker 1993). It is widely used and accepted by psychologists, political scientists, economists, and other researchers in the West (Johnston 1995, Braithwaite and Law 1985). PVS is criticized for its lack of comprehensive and representative coverage of the value domain, inaccurate classification of values, and for the use of a ranking rather than a rating scale. However, one cannot denigrate the practical application of Rokeach's value instrument and deny the reliability and validity of an approach that has been used by many researchers (Braithwaite and Law 1985).

PVS stems from a typical Western context and excludes values relevant to the Chinese context (Bond 1988, Hofstede and Bond 1989). It seems clear that the PVS alone may have limitations for describing Chinese value profiles (Peng *et al* 1997). The current study is concerned with the Chinese context which differs in several respects from the West. Thus, the CVS derived from the Confucian ethos, comprising 40 fundamental values and developed by Chinese Culture Connection (1987) was also used to examine value systems in the Chinese cultural context. Bond (1988) contends that CVS and PVS can be used together as an integrated instrument to measure values since they complement each other. He reported that some value items in the two instruments overlap while others are unique.

The personal value items selected from both instruments are supported by

literature. Values included in the PVS instrument are used to measure the entrepreneurial-conservative propensity. Researchers provide evidence that Western values such as innovation, risk taking, a need for achievement, imagination, trust, and broadmindedness are associated with entrepreneurial behavior and business success (England 1967, Rokeach 1973, Boohene 2006). Others including Kuratko, Hornsby and Naffziger (1997) and Gadenne (1998) identify that personal development and desire for independence determine the direction of management in the organization. Individualism, freedom, and self-confidence are also reported as significant values denoting entrepreneurship in the West (Rokeach 1974, Kotey and Meredith 1997, Gilder 1984). Giacomino and Eaton (2003) demonstrate that organizational success, development, growth and change are based on entrepreneurial values such as power, courage, logic, self-confidence, and imagination. In addition, Saha (1998) contends that pursuing a smart life can stimulate new technology and new products. Saha (1998) and Hofstede (1980) note that individualism and power are values that correlate highly with taking risks and seeking innovation in Western societies. Conservative values on the other hand cover equality, pleasure, affection, security, friendship, helpfulness, and forgiveness. These value items make up the modified version of Rokeach's PVS used in this study.

Among Chinese values, patriotism, industriousness, harmony, filial piety, loyalty to supervisors, solidarity, and adaptation are associated with the familism value dimension (Lee 1996, Zapalska and Edwards 2001, Lee 1996, Sheh 2001, Redding 1982). At the work place, ordering relationship, protecting your face, keeping disinterested and pure and obedience are highly valued (Redding 1982, Sheh 2001, Hofstede and Bond 1988) and relate to the hierarchy value dimension. In addition, values such as tolerance of others, trust, reciprocity, and moderation are found to reflect humanism and conflict avoidance in a transitional Chinese SMEs (Lee 1996, Wu and Leung 2005).

Given the length of the value instrument, the minimal differences in validity and reliability between ranking and rating methods, and the relative simplicity of rating versus ranking (McCarty and Shrum 2000, Peng et al 1997), respondents are asked to rate their personal values instead of rank them. A five-point Likert scale is employed ranging from 1 (not at all important) to 5 (extremely important).

**Functional Strategy.** While in large firms strategies are usually explicitly stated and documented (Johnson and Scholes 2002, Lynch 2000), in SMEs strategies are often informal and implied from management activities and decisions (Gibcus and Kemp 2003, Pearce and Robinson 1985). Management activities can be grouped into seven functional areas which together

comprise business strategy. In this study, strategy is examined in terms of the activities in each functional area that are considered proactive. *Planning* is an essential functional area or dimension of business strategy. Planning involves consciously formulating business goals and developing the means for implementing the goals. Entrepreneurial SMEs are noted to undertake more formal planning than conservative SMEs (Patrick and O'Connor 2005). In the *marketing* area, proactive businesses strive to achieve large market shares, to influence market trends and even create demand (Lumpkin and Dess 1996). They define their target markets, gather information about customers, and find ways of improving existing products and/or developing new ones to meet customer needs. Proactive marketing activities also cover product promotion and identification with brand names (Kotey and Harker 1998). Firms pursuing a proactive strategy pay attention to building competitive competence through better customer services, such as assistance with purchasing decisions, home delivery, warranties, and customer credit. They also establish an effective and efficient distribution network through cooperating with wholesalers, retailers and salespersons (Kotey and Harker 1998).

In the *finance* area proactive firms maintain stable external funding sources and balanced equity and debt levels (Kotey and Harker 1998). They emphasize cost efficiency, monitor cash flow, minimize their inventory levels, and ensure the firm is in a good liquid position. Proactive activities in the *human resource (HR)* area cover striving to achieve maximum productivity whilst maintaining a friendly and home-like work environment. Proactive HR activities also include enabling creativity among employees, appraising employee performance, attending to employee welfare, and encouraging employee participation in decision-making.

Proactive activities in the *production* area concern efficiency, high quality products, customization to meet different consumer needs, and timely delivery to customers (Kotey and Harker 1998). To achieve this, firms need to build product flexibility in the range of products carried. However, flexibility without attention to cost will leave firms vulnerable to competitors offering lower prices (Kotey and Harker 1998). A proactive production strategy requires attention to storage, transport cost, wastage, and quality control measures to meet national or international product standards (Kotey and Harker 1998).

Proactive businesses pay attention to *information and technology* strategy (Pollard and Hayne 1998). Accordingly, they find activities such as collecting and analyzing information on market and customer preference changes, investing in new product lines, funding research and development (R&D) and new technology, and improving management and office automated systems,

essential for attaining their goals (Pollard and Hayne 1998). However, most SMEs are unable to afford investment in new technology and the services of skilled technical experts. They are therefore unlikely to be the first to adopt new technologies. Nevertheless, SMEs keen to keep up with trends in new technology are proactive (Lumpkin and Dess 1996).

*Networking* strategy depends on whether collaborative relationships or independent operations are essential for sustainable business growth (de Wit and Meyer 1998). Developing a strategy together with other businesses can impact all functions of the business such as basic research, production capacity and access to distribution channels (Hamel *et al* 1998). Benefits of networking include sharing information relevant to successful operations, shorter learning times, and long-term sustainability. Firms cooperate to compete (Dollinger and Golden 1992). It is therefore necessary that they select carefully the skills and technologies to leave out of such cooperative activities so that they can balance competitive and cooperative postures in their relationships.

It is argued that strategies in small business usually exist in the CEO's mind so that a broad definition of strategy that encompasses activities at the functional level is essential for SME research (Johnson and Scholes 2002, Kalantaridis 2004). It is also more appropriate to examine realized rather than intended strategies when dealing with the SME sector, that is, the content of strategy at the functional levels (Hussin *et al* 2002). Although strategies in small firms are usually not separated into functional areas, decisions made and actions taken can be grouped for analytical purposes into seven areas collated from the literature. Such analytical separation, however, does not overlook the importance of integrating strategies across functional areas (Kotey and Meredith 1997). Thus, the strategy construct for this research is developed with consideration to its multi-dimensionality (Finney, Campbell, and Powell 2005; Venkatraman and Grant 1986). The strategy instrument, modified from Kotey and Harker (1998), covers seven functional areas: planning, marketing, finance, HR management, operation, information technology and networking.

Questions relating to the various functional activities are selected from the literature and reworded to meet the understanding of the participants. Respondents are asked to rate the extent to which each functional activity is undertaken in their businesses on a five-point Likert scale, ranging from 5 (always) to 1 (never). The extent of pro-activeness in strategic orientation is ascertained by the respondent's ratings on the various strategy items in each functional area.

## ***Analytical Techniques***

A structural equation modeling (SEM) technique, partial least squares (PLS) is used as a typical modeling technique of causality that integrates the assumption, constructs, and hypotheses in an explicit theory (Hulland 1999). PLS presents a few advantages in testing structural equations (Chin 1998). First, PLS can be used to confirm theoretical models, to suggest where relationships might or might not exist, and to propose hypotheses for latter testing. It enables researchers to construct unobservable latent variables, model errors in measurement, and statistically test a priori theoretical and measurement assumptions against empirical data. Second, in the social sciences where data collected from surveys are usually not normally distributed, nor concepts measured without errors, the PLS can be used to relax error and distribution assumptions (Boohene 2006). Third, PLS supports small sample sizes. Chin (1998b) recommended a minimum sample size of ten times the largest number of structural paths directed at a particular construct in the structural model. Hence, the PLS approach has been adopted in a wide range of research areas in business (for example, Hulland and Kleinmunttz 1994, Smith and Barclay 1997), strategic management (for example, Hulland 1999, Boohene 2006), SME performance (for example, Raymond 2002), customer satisfaction (for example, Hsu *et al* 2006), and global strategy (for example, Johansson and Yip 1994). The PLS Graph (Version 3.0) is used to test the structural equations in this study.

The PLS approach contains two inter-related models – the measurement model (outer model) and the structural model (inner model). It is usually analyzed in two sequential stages: the assessment of the validity and reliability of the measurement model and the assessment of the structural model. The measurement model is assessed according to individual item reliabilities (factor loadings) and composite reliabilities (internal consistency), and the convergent validity (or average variance extracted, AVE) and discriminant validity associated with individual constructs (Chin 1998). In this study, the cut-off values for indicators for the various constructs are: 0.5 for factor loadings, 0.7 for a satisfactory composite reliability (Nunnally 1978); 0.38 for AVE (Hulland 1999); and 0.5 for discriminant validity (Gefen and Straub 2005). Constructs and indicators that do not satisfy the cut-off values are eliminated from the model. Predictiveness of the structural model is assessed by R-squares and re-sampling procedures such as jackknifing and bootstrapping are use to examine stability of the measures (Chin, Marcolin, and Newsted 2003, Chin 1998). As a rule of thumb, the value of the average variance accounted for (AVA), which is simply the mean R2s of the model, is recommended as greater than 10 percent (Falk and Miller 1992). In addition, bootstrapping is

used to estimate not only path coefficients but also standard errors and calculated *t* statistics determine the level of significance for each coefficient.

## Results and Discussions

### Results of Hypotheses Testing

The measurement models for the various constructs and their assessment are presented in Appendix 1. The results are summarized in Tables 1 and 2. It is predicted that Chinese CEOs with entrepreneurial values would adopt proactive strategies, whilst Chinese CEOs with conservative values would be less proactive in strategic orientation (*H1* and *H2*). As shown in Table 1, the entrepreneurial value construct has strong associations with all functional areas ( $p < 0.05$ ,  $p < 0.01$ ). Hypothesis 1 is fully supported. Conservative values, however, have weak associations with the strategy dimension. Only two functional areas, HR management and network strategy are significantly associated with conservative values ( $\beta = 0.13^*$ ,  $\beta = 0.15^*$ ). Compared with the results for entrepreneurial values, it appears that CEOs with conservative values are less proactive in strategic orientation. Hypothesis 2 is also supported.

<b>Functions</b>	Entrepreneurial Values	Conservative Values	Familism	Humanism	Hierarchy
Planning	0.42****	-0.09	0.01	0.17**	0.02
Marketing	0.19***	-0.05	0.01	0.19**	0.22****
Finance	0.34****	0.02	-0.06	0.27****	-0.04
HR management	0.24****	0.13*	0.05	0.01	0.22****
Operation	0.33****	-0.01	-0.10	0.21****	0.17***
IT	0.14**	0.10	-0.01	-0.06	0.23****
Network Strategy	0.27****	0.15*	-0.09	0.00	0.28****
* $p < 0.10$ , ** $p < 0.05$ , *** $p < 0.01$ , **** $p < 0.001$ , one tailed					

The relationships between the three Chinese value dimensions and strategy are more complex. Two Chinese value dimensions, humanism and hierarchy, are predicted to be positively associated with proactive strategy (*H4c* and *H5c*), whilst familism is expected to be linked with a lower orientation to proactive strategy (*H3c*). From Table 1, familism is not associated with any of the strategy dimensions, indicating that Chinese CEOs who value highly familism are less likely to be proactive in strategic orientation, providing support for *H3c*. *H4c* and *H5c* are also partially supported. The strategy

dimensions of planning, marketing, finance and operation are positively linked with the humanism value dimension and five strategy dimensions (marketing, HR, operation, IT, and network strategy) are positively associated with the hierarchy value.

The associations between the Chinese value dimensions of familism, humanism, hierarchy and the Western entrepreneurial and conservative value dimensions are also examined. The results of PLS analyses are in Table 2. Consistent with expectations, the Chinese humanism value has elements of entrepreneurship and conservatism providing support for *H4a* and *H4b*. Although familism correlates positively with conservatism (*H3a*), contrary to *H3b* it also has a positive association with entrepreneurial values. Two possibilities are predicted for the hierarchy value: one reflecting entrepreneurship (*H5a*) and the other having a negative association (*H5b*). The results reveal a negative association with entrepreneurship supporting *H5b* but refuting *H5a*.

<b>Table 2</b>		
<b>Chinese Personal Values and Western Entrepreneurial Values: Path Coefficients</b>		
	Entrepreneurial	Conservative
Familism	0.52****	0.42****
Hierarchy	-0.12**	0.07
Humanism	0.26****	0.30****
** $p < 0.05$ , *** $p < 0.01$ , **** $p < 0.001$ , one tailed		

## **Discussions**

The findings reveal wider application of the contention that entrepreneurial values are more positively linked with proactive strategies than conservative values. A number of additions are made to the literature. First, the Chinese values of hierarchy and humanism also encourage pro-activeness in strategy. Second, similar to the Western value of conservatism, familism represents a less proactive stance in relation to strategy. Third, the Chinese values of familism and humanism incorporate both Western entrepreneurial and conservative values. Finally, the Chinese hierarchy value has a negative association with entrepreneurship.

The findings indicate that whilst the socialization context for Chinese on the mainland runs counter to what Rotter (1966) proposed for the upbringing of entrepreneurs, some Chinese CEOs on the mainland have been able to develop entrepreneurial values in addition to their collectivist values, enabling them to respond proactively to decisions concerning their

businesses. However, Chinese CEOs on the mainland with low ratings on entrepreneurial values are unable to exercise the same levels of initiatives as their entrepreneurial counterparts. Despite this position, it must be noted that the entrepreneurial-conservative continuum does not apply as simply to the mainland Chinese CEOs as depicted in the Western literature. The Chinese CEO possesses a dual value system encompassing elements of both Western entrepreneurship and conservatism, particularly those who value highly familism and humanism. While the bone-deep Chinese values of familism and humanism indicate conservatism, they also encourage entrepreneurial values in Chinese CEOs.

Emphasis on the humanism values, however, has more benefit to effective business operation than the position of a patriarch associated with the familism value. This is not surprising as the Western literature indicates that a cordial, relaxed and friendly workplace where employees are involved in decision-making is more productive (Sirmon and Hitt 2003) than one in which the CEO assumes the position of a patriarch with all decision-making authority, requiring employees to be content with being looked after (Harris, Reid and McAdams 2004). Ket de Vries (1993) explained how the latter position can lead to abuse of power and inertia with negative consequences for the business. It is worth noting that the humanism value is not associated with any of the strategy dimensions involving human relations such as networking and human resource management. It may be that significant efforts are not required for effective performance in these areas but that employees and other stakeholders are happy to work with an approachable, friendly and helpful CEO. In this case both the conservative and entrepreneurial aspects of humanism are used to the business advantage.

Another interesting finding is the negative association between hierarchy and entrepreneurial values, but positive correlations between the hierarchy value and the majority of proactive strategy dimensions including networking and human resource management. It is noted above that the CEO can use the power vested in him/her, at the apex of the hierarchy, in ways that will have either positive or negative outcomes for the business. It appears from the results that Chinese CEOs who value their position at the apex use the power vested in them proactively to benefit the business. Nevertheless, the value of hierarchy runs counter to the Western entrepreneurship value which embodies a need for power, competition and aggression all of which are necessary to access resources in the West. In contrast, a cooperative attitude is more effective for accessing and using resources in China.

The findings concur with existing literature that humanism (or collective

human-centeredness), with a high sense of cohesion within the hierarchy, is common to Chinese CEOs (Redding 1982, Sheh 2001). They also support the contention that Chinese CEOs define themselves by their associations. For example, attention is given to business networks as strong connections with stakeholders are necessary for priority access to relevant resources and information. The Chinese CEO is able to compete effectively whilst maintaining a peaceful co-existence with competitors (*heqi shengcai* in Chinese). This is possible as the Chinese is socialized to consider the interests of others in all situations for a 'win-win' outcome (Yu 2001). While the Chinese values of protecting face, remaining disinterested and pure, and obedience run counter to some of the Western entrepreneurial values they are nevertheless important for business success within the context in which they are developed.

The findings contradict those based on overseas Chinese businesses, in which familism is highlighted as having a positive effect on business operations and performance. This study, in contrast, demonstrates that familism runs counter to proactive strategic orientation. That is, the more family oriented the CEO, the less proactive their strategic position. The differences in findings can be explained by the different contexts (the overseas market economies and the transitional economy in mainland China) in which the two types of businesses operate and the different ownership structures. Overseas Chinese businesses are purely family businesses and governed by paternalism (Yu 2001), whilst a majority of SMEs in mainland China have external owners (Chen, Li and Matlay 2006).

The findings also support Kirby and Fan's (1995) assertion that not all Chinese values are relevant to entrepreneurship. Comparing Chinese values from the Chinese Value Survey with the entrepreneurial values of the West, Kirby and Fan (1995) report that "some [Chinese] values coincide completely or in part with the entrepreneurial attributes, some are totally conflicting, and some are obviously missing" (p. 250). They argue that Chinese values are more about people-orientation (such as *guanxi*) and personal cultivation. They identify the associations between seven Chinese values and entrepreneurship and note that some important entrepreneurial values such as creativity and innovation are missing from the CVS. Unfortunately, they fail to provide empirical evidence to support these assertions. The empirical analyses in the current study indicate that both Chinese and Western values are relevant to proactive business strategy.

## **Conclusion**

The study shows that the Chinese CEOs on the mainland cannot be described as either entrepreneurial or conservative but embody values

associated with both value systems. Chinese values, developed on the mainland, are necessary for successful business operation within that same context. Successful business operation requires an intricate mix of cooperation and competition for access to relevant resources and information. Concern for the interest of others is critical whilst exercising the initiatives associated with a proactive strategic posture. The move towards market economy, globalization, and increased contact with the West may induce a gradual shift in Chinese values as they become more Westernized. This is likely to be the case as legal structures are developed and replace personal relationships as the basis of business relationships.

The limitations of the study include the small sample size and restriction to one industry sector in one town, so that the findings cannot be generalized. Future research can assess the application of the findings to other industry sectors and towns in China. Moreover, the association between other Chinese values not covered in this study and Western value systems would provide valuable additions to the literature. The model tested in the study can be extended to include the influence of the environment which together with personality characteristics of the owner-manager are proposed to determine strategy. Finally, the effect of the variables, strategy and personal values, on SME performance can be investigated.

## Appendix 1 Results of the Measurement Model

<b>Table 3</b>			
<b>Results of the Value Construct Measurements</b>			
<b>Constructs and Measures</b>	<b>Mean</b>	<b>Std Dev</b>	<b>Factor Loadings</b>
<b>Familism (Composite Reliability = 0.85, AVE = 0.45)</b>			
Filial piety	3.56	1.04	0.65
Harmony with others	3.48	1.02	0.70
Solidarity with others	3.78	1.89	0.72
Adaptability	3.66	1.11	0.65
Industrious	3.71	1.04	0.65
Patriotism	3.61	1.05	0.72
Loyalty to superiors	3.60	0.93	0.62
<b>Hierarchy (Composite Reliability = 0.80, AVE = 0.44)</b>			
Keeping oneself disinterested and pure	2.17	1.29	0.69
Wealth	2.85	0.89	0.61
Protecting your face	2.87	1.15	0.68
Obedience	3.38	1.53	0.64

<b>Humanism (Composite Reliability = 0.83, AVE = 0.45)</b>			
Tolerance of others	3.51	0.91	0.63
Reciprocation of greetings, favors, and gifts	3.44	1.09	0.50
Patience	3.54	0.94	0.74
Persistence and perseverance	3.62	1.15	0.69
Thrift	3.53	1.05	0.67
Having a sense of shame	3.72	1.06	0.78
<b>Entrepreneurial (Composite Reliability = 0.84, AVE = 0.42)</b>			
Risk taking	3.32	1.62	0.69
Personal development	3.46	0.90	0.70
Innovation	3.71	1.14	0.71
Broadmindedness	3.64	1.46	0.57
Trust	4.01	2.47	0.68
Imagination	3.55	1.04	0.62
Self confidence	3.58	0.90	0.56
<b>Conservative (Composite Reliability = 0.83, AVE = 0.45)</b>			
Equality	3.32	1.12	0.65
Self -respect	3.50	0.95	0.67
True friendship	3.50	1.24	0.68
Capability	3.71	2.47	0.61
Forgiveness	3.68	2.50	0.72
Helpfulness	3.47	0.95	0.68

**Table 4  
Results of Functional Construct Measurements**

<b>Constructs and Measures</b>	<b>Mean</b>	<b>Std Dev</b>	<b>Factor Loadings</b>
<b>Planning (Composite Reliability = 0.82, AVE = 0.48)</b>			
Set goals for my business	3.39	1.56	0.76
Make decisions and plans on how to achieve goals	3.56	0.95	0.77
Review and make changes to initial plans	3.46	0.92	0.61
Analyze financial reports regularly	3.73	1.04	0.65
Compare actual financial performance with goals	3.70	1.54	0.67
<b>Marketing (Composite Reliability = 0.78, AVE = 0.40)</b>			
Set price based on the average price of competitors	3.49	0.92	0.54
Set price based on total production costs	3.41	0.90	0.56
Developed a sale distribution network	3.47	1.03	0.62

Sell through retailers or other third parties	3.11	1.15	0.62
Use the internet to sell my product	3.19	1.28	0.62
Advertise my products locally			
<b>Finance (Composite Reliability = 0.81, AVE = 0.42)</b>			
Ensure that credit customers pay on time	3.53	0.96	0.60
Pay suppliers on time	3.61	0.97	0.72
Keep good credit standing with the banks	3.80	1.01	0.71
Keep low inventory by producing to client orders	3.52	0.89	0.66
Have a stable channel for raising capital	3.51	1.00	0.53
Reinvest profit into the business annually	3.31	1.01	0.66
<b>HR management (Composite Reliability = 0.83, AVE = 0.49)</b>			
Explain firm goals and policies to new staff	3.42	1.00	0.66
Pay employees above the average rate	2.39	0.89	0.58
Pay bonus to employees based on performance	3.57	1.10	0.61
Maintain a family alike environment in work place	2.90	0.88	0.56
Sponsor and join the entertaining activities of staff	3.37	1.02	0.66
	3.45	0.92	0.63
Loyalty and obedience are two critical for promotion	3.55	0.95	0.64
	3.52	1.02	0.62
Value opinions of staffs on improving performance			
Emphasize safe and healthy working conditions			
<b>Operation (Composite Reliability = 0.81, AVE = 0.47)</b>			
	3.56	1.00	0.62
	3.61	1.00	0.74
Routinely gather feedback from clients	3.10	0.84	0.67
Emphasize quality more than price and services	2.89	0.89	0.71
Achieve cost advantages with simple management	3.64	0.92	0.68
Provide feedback to suppliers			
Draw a set of written rules for quality control			
<b>IT (Composite Reliability = 0.81, AVE = 0.47)</b>			
Production process is highly automated	2.78	0.78	0.63
Adopt computer systems for improving production	3.30	1.04	0.76
	3.52	0.82	0.71
Use internet to search information for my business			
<b>Network construction (Composite Reliability = 0.82, AVE = 0.40)</b>			

Cooperate with large firms to improve management	3.48	1.11	0.57
Keep relationships with large firms for information	3.45	1.01	0.61
Cooperating with large firms in new products R&D	2.82	2.02	0.72
Coop with universities and technological institutes	2.82	1.20	0.68
Build good relationships with the government	2.95	0.87	0.73
Build cooperative networks with local counterparts	3.29	1.12	0.61
Seek 'building effective cooperative relationships with peers' as a 'win-win' strategy	3.34	1.02	0.51

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