

Journal of New Business Ideas & Trends

2013, 11(1), pp. 1-19.

"http://www.jnbit.org"

The Configuration of Entrepreneurial Strategy in Chinese Small Textile Manufacturing Firms

Bernice Kotey

School of Business, Economics and Public Policy
University of New England Armidale, NSW 2351, Australia
Tel: 61 2 6773 2830; Fax: 61 2 6773 3148
Email: bkotey@une.edu.au

Bishnu Sharma

School of Business, Faculty of Arts and Business
University of the Sunshine Coast, Australia
Email: bsharma@usc.edu.au

Ke Gao

School of Business, Economics and Public Policy,
University of New England, Australia
Email: kgao3@une.edu.au

Abstract

Purpose – This paper examines the interrelationships among functional area activities in their association with entrepreneurial strategy in a progressive textile manufacturing industry in China.

Design/methodology/approach – The research is based on a sample of 248 small businesses in a textile manufacturing industry in Shaoxing, China. A questionnaire survey of owners/managers in the industry was carried out at a conference of the Shaoxing Textile Industry Association. Partial Least Square was used to analyze the data.

Findings – The findings suggest that the pattern by which functional area activities that comprise entrepreneurial strategy are organized are similar in several respects to such strategies in Western economies. Networking features prominently alongside market-based activities of customer retention management and technology as determinants of entrepreneurial strategy in the Chinese textile manufacturing industry. The study also found that activities in these three functional areas mediate the association between other functional area activities such as HRM, operations, planning, and finance and entrepreneurial strategy.

Research limitations/implications – Generalization of the findings is limited by the examination of small businesses in one industry sector. Future research is required to assess the application of the findings to other industry sectors.

Practical implications - In a social-based system where relationships are important, the development and maintenance of network ties as well as attention to customers and innovation are critical to pursuit of entrepreneurial strategy.

Originality/value – The study contributes to the limited existing knowledge on entrepreneurial strategy among small businesses operating in China.

Keywords: entrepreneurship, strategy, networking, functional activities, innovation, China

JEL Classifications: L53; R11

PsycINFO Classifications: 3000

FoR Code: 1503

Introduction

There is a large body of literature that deals with the meaning of strategy (Bhalla et al., 2009). Strategy has been described as a set of actions (Hill and Jones, 2012), as management's competitive moves and approaches (Thompson et al., 2012), and as the direction and scope of an organization over the long term (Johnson et al., 2008) that guide managers to compete successfully and to grow and improve the organization. Through its strategy, an organization is able to configure its resources and competencies to gain competitive advantage and achieve above average return in the changing environment in which it operates. Henry Mintzberg, an influential management scholar defined strategy as a plan, ploy, pattern, position and perspective (1987). He also argued that none of these descriptions takes precedence over the others. However, the two descriptions often used in the literature and on which this paper is based are pattern of interrelated activities and ploy for outwitting competitors. In the strategic management literature, these have given rise to various strategy archetypes or postures. Common among these are Miles and Snow's (1978) four strategy types: analyzers, prospectors, defenders, and reactors; and Porter's (1980) generic strategies of cost leadership, differentiation, focused cost leadership, and focused differentiation.

In the entrepreneurial and small business literatures, proactive or entrepreneurial strategies and reactive or conservative strategies feature prominently (Miller and Friesen, 1983; Covin, 1991; Chenhall and Morris, 1995; Kotey and Meredith, 1997; Gray, 1997; Covin et al., 2006). Entrepreneurial strategy, defined as comprising innovation, risk-taking and proactiveness, result in superior performance to conservative strategies (Miller and Friesen, 1983; Covin and Slevin, 1989; Covin et al., 2006; Rauch et al., 2009), the latter characterized by risk avoidance, imitation and reactive responses to opportunities and threats (Kotey and Meredith, 1997). Despite these general descriptions, the configuration of activities that lead to realization of each of the two strategy-types are likely to differ in various macro-economic and industry settings (Porter, 1980; 1990). The focus of this paper is on entrepreneurial strategy because of its importance in achieving the organization's purpose, sustaining its vision and creating competitive advantage (Rauch et al. 2009, p.763).

The indicators of innovation, risk-taking and pro-activeness are consistently evident for entrepreneurial strategy in established market economies (Dess et al., 1997; Gray, 1997; Morris and Jones, 1999) because they are derived from internally developed competences and firms are free to choose and develop the relevant competences (Peng and Heath, 1996). Firms operating in emerging markets without complete strategic choice will not have the same opportunities and resources to develop individual competences (Uhlenbruck et al., 2003). In many cases, the required resources are in short supply and not readily accessible on the free market or affordable (Peng and Heath, 1996; Davies and Walters, 2004). In economies like China, another setback to developing internal competences is the culturally-based social system that promotes cooperation and alignment of business and personal relationships and discourages self-centeredness and pursuit of individual outcomes (Lin and Si, 2010). Despite these barriers, firms pursuing entrepreneurial strategies in a social-based and/or emerging market setting will find the means to develop competences that provide competitive advantage by accessing the required resources at lower cost and risk through various cooperative or networking arrangements (Peng and Luo, 2000). Business and personal networks are, therefore, important to pursuit of entrepreneurial strategies in such settings and require entrepreneurs to be adept at balancing cooperative and competitive positions, knowing what resources and business activities to share and which to leave out of their business relationships (Dollinger and Golden, 1992). We examine the pattern of associations between functional area activities including networking that result in entrepreneurial strategy. Specifically, we identify which activities are directly associated with entrepreneurial strategies and which are mediated by others such as networking in their relationship to entrepreneurial strategy. This study contributes to the extant literature by demonstrating how the activities that form entrepreneurial strategy are configured in a social-based and emerging market setting where choice and development of internal competences for competitive advantage are relatively constrained by lack of direct access to resources.

A discussion of the relevant literature follows from which hypotheses are formulated for testing. The research design is described in the third section and results from the statistical analyses presented in the fourth section and discussed in the fifth. The findings are summarized in the last section where implications are drawn, limitations acknowledged and areas for future research delineated.

Literature Review

Strategy as a Pattern of Interrelated Activities

The concept of strategy was introduced into the literature and advanced in the fifties by faculty members at the Harvard Business School (Snow and Hambrick, 1980). The strategy literature suggests that organizations need strategies that are simple, clear and implementable (Collis and Rukstad, 2008) to deal with changing environments (Chaffee, 1985; Hill and Jones, 2012). A firm's relative position within its industry is determined by its strategy which in turn defines its product range and image, cost structure, management and marketing strengths, and distribution channel (Bradley, 1991). The firm's activities in these areas then determine its market position, market share and profitability.

Porter (1991) portrayed the firm as a set of discrete but interrelated economic activities, with the configuration and interrelationships among the activities defined by the firm's strategy. The discrete activities are part of an interdependent system in which the cost and effectiveness of an activity is affected by the way other activities are performed. This depiction draws from the concept of strategy as a pattern. Similarly, Covin (1991) described strategy as a collection of individual business-related decisions, explaining that a pattern can be identified among the decisions that depict a firm's overall strategy. For a thorough understanding of strategy, Galbraith and Schendel (1983) cautioned against independent examination of the activities that make up a strategy, a process they perceived as studying only part of the whole.

The concept of strategy as interrelated activities applies equally to small and large firms because effective business operation, irrespective of firm size, requires consistency among decisions and actions. However, decisions and actions are rarely documented in small firms as they are informal and inferable from realized actions (Pearce and Robinson, 2007). Therefore, realized or implemented activities provide a more accurate picture of a small firm's strategy than intended activities or plans. Mintzberg et al.'s (1995) suggestion that strategy evolves over time as a blend of planned (intended) activities and unplanned (emergent) responses to new developments (Mintzberg and Waters, 1985) is widely shared in the strategy literature (Hill and Jones, 2012; Dess et al., 2008). Similarly, Sashittal and Tankersley (1997) contended that contrary to the static and predetermined process portrayed in the literature, strategy formulation, particularly in small firms, follows an unpredictable and ad hoc process with decisions often based on owner-managers' gut feel and subjective interpretations of their day-to-day situation. It is held that plans and strategies are altered frequently to conform to the dynamism and partial unpredictability of competition and the surrounding environment, as well as the forever changing trends in consumer needs and expectations. Therefore, examination of strategies 'ex post' rather than 'ex-ante' presents a more realistic portrayal of strategy in small business. Realized actions are examined in this study.

Functional Area Strategies

The activities that constitute a strategy can be grouped into functional areas such as planning, marketing, financial management, production, technology, networking, and human resource management, so that [business] strategy can be thought of as comprising functional strategies (Hill and Jones, 2012; Galbraith and Schendel, 1983) and ultimately the activities, actions and decisions that make up these functional strategies. Functional strategies add relevant details to and support the business strategy (Thompson and Strickland, 2003; Odgers, 2002) and an effective strategy has functional strategies that integrate into a cohesive whole (de Wit and Meyer, 1998). Although functional strategies are not as explicitly delineated in SMEs as in large firms, the activities and decisions of SMEs can be grouped into the above functional areas for analytical purposes (Kotey and Harker, 1998).

Strategy as a Ploy and Strategy-types

The focus of functional strategy is to improve efficiency, quality, innovation, customer responsiveness or a combination of these for enhanced competitive advantage at the business level (Thompson et al., 2012; Hill and Jones, 2012; Odgers, 2002). However, all functional areas and their activities are not given the same level of emphasis; the relative level of emphasis provided to the various functional areas will depend on the competitive strategy pursued. There is therefore a pattern of emphasis among functional activities or strategies that makes up the business strategy and this in turn defines the firm's position in relation to competitors. The concept of strategy as a competitive

tool has given rise to the term ‘strategic posture’ referring to a firm’s overall competitive orientation that directs or constraints the options available to its future competitive activity (Covin and Slevin, 1989). Strategic posture describes a consistent pattern in management’s decisions regarding scope, resource deployment, competitive advantage and changes in these variables over time that spell the way a firm intends to compete (Galbraith and Schendel, 1983). Two classifications of strategy most referred to in the management literature are those of Miles and Snow (1978) and Porter (1980).

The most common strategic postures delineated in the entrepreneurship literature are proactive or entrepreneurial strategy and reactive or conservative strategy (Covin and Slevin 1989, Gray 1997, Dess et al., 1997). This study focuses on entrepreneurial strategy because of its positive association with innovation, pro-activeness and ultimately performance (Kotey and Meredith 1997). It is proposed as the appropriate strategy for dynamic environments (Covin and Slevin 1989). In the following section, we discuss the activities in the various functional areas that are associated with entrepreneurial strategy.

Entrepreneurial Strategy and Related Functional Area Activities

We identified above that strategy comprises activities in the functional areas of marketing, production, technology, human resource management (HRM), financial management, planning and networking. The marketing function is most critical to businesses as there is no business without customers (Scarborough, 2011). In the marketing functional area, firms pursuing entrepreneurial strategies strive to achieve large market shares, influence market trends and even create new demand (Lumpkin and Dess, 1996). Marketing activities include market research, target market identification, gathering information about customers and competitors, improving existing products and/or developing new ones to meet customer needs and to beat the competition in order to retain existing customers and acquire new customers (Hill and Jones, 2012). Activities in the marketing area also cover identification with brand names and use of appropriate media to promote products (Scarborough et al., 2009; Paige and Littrell, 2002; Pelham and Lieb, 2004). Businesses pursuing an entrepreneurial strategy pay attention to customer retention, good customer service, enhanced product benefits, efficient distribution networks, analysis of market intelligence and effective pricing (Kotey and Harker, 1998).

Goods must be produced and services delivered to meet customer needs, the production function is therefore also vital and is the *raison d’être* for the business. Activities in the operations functional area are aimed at making products that meet the needs of target customers. Smallbone et al (1995) asserted that operation is best described in three ways: increasing control over and reducing production cost; seeking increased efficiency in the use of labour which may involve investment in new production technologies; and improving quality standards in production. Effective operation therefore concerns labour productivity, minimising wastage, product quality, timely delivery of sales and customization of products to consumer needs (Aranda, 2002). Customization requires building volume and product flexibilities through the range and quantities of products carried. However, flexibility without attention to cost will leave businesses vulnerable to competitors offering lower prices (Kotey and Harker, 1998). Effective operations also require attention to location, layout, acquisition and management of physical resources (buildings, machinery, fixtures and so on), and supply chain and inventory management (Hodgetts and Kuratko, 2008).

Innovation and therefore the technology function are essential to pursuit of entrepreneurial strategy as firms must lead or at least meet industry standards in product and production technology to be competitive. Activities associated with the technology function deal with systems and processes aimed at operating efficiency and product quality enhancement as well as managing information for performance monitoring in other functional areas. Technology can be used to gather and analyze information on customer behavior, demand, production quality, employee productivity and financial performance (Pollard and Hayne, 1998). Technology also provides access to information about the immediate and wider environment of the business, enabling it to assess its strengths and weaknesses against opportunities and threats. Information technology (IT) provides access to global markets and allows administrative functions to be performed efficiently. While small businesses lack the financial resources to invest in attaining first mover positions in their industries, they keep up with new trends in technology through their networks and strategic alliances (Lumpkin and Dess, 1996).

Appropriate human capital is required to achieve production targets and perform in the other functional areas. Effective HRM calls for attention to acquisition, development, retention and

rewarding of human resource. Proactive HRM promotes employee creativity and encourages their participation in decision-making (Hodgetts and Kuratko, 2008). In developing organizational HR programs that improve employee performance, the importance of competency-based human resource strategy focusing on recruitment and selection, training and development and performance management is emphasised (Gangani et al., 2006). Areas of competences for building a productive workforce cover motivation levels, skills, abilities, values, beliefs, knowledge and attitudes.

All activities must be financed and financial resources must be effectively managed. Stable external funding sources and an effective mix of equity and debt (Kotey and Harker, 1998) are important to pursuit of entrepreneurial strategy. Relevant activities in the finance area include efficient operations; cash flow monitoring; effective management of debtors, creditors and inventory; and managing relationships with debt and equity providers. Assets must be matched with their source of funding (Scarborough et al., 2009).

Networks and alliances with other organisations such as suppliers, customers, competitors, or other entities are of strategic importance to the business (Gulati et al., 2000; Andersson et al., 2002) as they enable access to resources and opportunities (financial, physical, human, markets and information) otherwise beyond reach of the business (Julien et al., 2004). Networks can be used to improve product quality and production efficiency and shorten learning curves (Dollinger and Golden, 1992; Hamel et al., 1998). Networks from new business arrangements are helpful for improving global market access, innovation capacities, and business performance (Damaskopoulos et al., 2008). However, there are challenges to developing a networking ability and managing relationships with other firms (Ritter et al., 2004). Firms pursuing entrepreneurial strategies must be skilled at building, maintaining, reviewing and renewing business relationships at minimum possible cost. Since the main aim of networking is to build competitive advantage, proactive networking requires careful consideration of the business resources to leave out of networking activities in order to balance competition and cooperation (Dollinger and Golden, 1992; Gao, 2008). Therefore the key challenge in networking is balancing control over critical resources against the costs and complexity of managing agreements in the relationships and loss of autonomy (Dollinger and Golden, 1992). The benefits to individual firms in the network rest on their control over resources (Hakansson and Johanson, 1992) so that entrepreneurial strategy should aim at increasing business control over resources through access to relevant knowledge from the networks.

Planning involves developing an overall picture of how the business will be positioned in the market and identifying actions for achieving this overall position (Scarborough et al., 2009; Georgellis et al., 2000; Woods and Joyce, 2003). Therefore, plans define functional area activities that will place the business in its desired market position. During implementation, the activities are monitored by comparing their outcomes with planned targets. In this way, revisions can be made to the plan to address deviations. Planning has been shown to be beneficial to small business performance (Brinckman et al., 2010). Patrick and O'Connor (2005) reported that SMEs pursuing entrepreneurial strategy undertake more formal planning than those with conservative strategies. They demonstrated that planning enables firms to be informed of their environments and capabilities and to use such information to improve competitive advantage. Similarly, Perry (2001) found that despite the overall low levels of planning among small firms, the successful ones undertake more systematic planning than failed firms.

We noted above, the dominant positions of market development and marketing as well as production and up-to-date technology to entrepreneurial strategy. In a complete market environment, the three functional areas have direct associations with entrepreneurial strategy and are supported by the quality of human resources and networks of the business. Human resources and networks therefore directly determine how effectively activities at the three functional areas are performed and indirectly establish entrepreneurial strategy through their association with the three functional areas. The business financial capability determines the quality of resources available to it and performance in the functional areas of marketing, operations, technology, human resources and networking. Finally, planning strengthens performance in all functional areas. The planning and financial management functions therefore indirectly determine entrepreneurial strategy by establishing activities in the other functional areas, especially those directly associated with entrepreneurial strategy. While the above portrays the pattern by which the various functional area activities relate to entrepreneurial strategy in a market economy, where resources are generally available to businesses and business are free to develop individual competencies, the same cannot be

said for firms operating in emerging markets and facing constraints to resource access. The context of the research is explained in the next section and provides a basis for developing hypotheses for the pattern by which functional area activities will relate to entrepreneurial strategy in an emerging market context where social relationships are important.

The Shaoxing Textile Industry

To the extent that strategies must be aligned with the environment in which they are executed, the activities that comprise entrepreneurial strategy will vary with the industry and wider macro-economic setting of the business (North, 1990; Porter, 1990; Oliver, 1991; White and Liu, 2001). This section provides an overview of the Shaoxing textile industry on which this study is based. A brief description of the Chinese business environment is also provided to enhance understanding of the context in which the firms examined operate.

Textile is a major export earner for China and Zhejiang province where Shaoxing is located is one of the ten national textile industry bases. Consistently ranked first in export earnings for textile products since 1999 (CTIY, 2003), Zhejiang has become the leading province in China for textile manufacturing. The textile industry in Shaoxing is dynamic, having evolved through several stages in the last four decades. Through government support, it became the first textile industry in China to introduce chemical fibres in the 1970s. It was subsequently transformed into a world fiber market with the largest textile distribution centers in China in the 1980s (Liu, 2004). Again with government assistance, the industry was opened to foreign trade in the 1990s and foreign direct investment (FDI) was promoted, encouraging firms to upgrade their production processes and ultimately raise the competitive capacity of their products in terms of quality and technology (Gao, 2008). At the same time, government efforts at strengthening research and development capacity in the industry enabled firms to upgrade their production systems, adopt the latest technologies and enhance quality of their products to gain leading positions in medium to high-end international markets (Wang, 2005). More recently, an ownership revolution has transferred ownership of several SMEs in the industry from local government to private individuals (Liu, 2004). These processes have been enabled by new legislation that protect private property, regulate private enterprise, and recognize management independence (Gao, 2008).

The government's privatization policies have motivated entrepreneurial initiatives (Liu, 2004), positioning the Shaoxing textile industry as one of the earliest to embrace competition and free-market operations (Liu, 2004). The industry is portrayed as dynamic and complex, so that an entrepreneurial orientation is required for successful performance. The changes that transformed the Shaoxing textile industry into a competitive market are now characteristic of several industries in China so that the business environment in general is considered complex, dynamic, hostile and uncertain (Luo, 1999; Luo and Park, 2001; Tan and Litschert, 1994). Tan and Tan (2005) suggested that such environments induce pockets of opportunities for differentiation, rewarding entrepreneurs able to recognize and take advantage of them.

Hypotheses development

According to Mason (2007) and Conner (1998), in an emerging market setting characterized by rapid changes in rules of the game, decision windows are shortened, speeding obsolescence of strategies and rendering long-term business control impossible. Business success in such environments calls for continuous innovation, constant replacement of products ahead of competitors and malleable strategies that allow quick response to changes. Operating in such environments requires quick learning, risk taking and use of strategic alliances to access necessary competences and specialized resources (Chakravarthy, 1997). In other words, such settings call for entrepreneurial strategies.

Consistent with the above position, Tan and Tan (2005) argued that the increasing rate of market development in China has improved the environment's conduciveness to entrepreneurship, encouraging greater future orientation, innovation, risk taking and proactiveness among business owners. Furthermore, in a culture where relationships are important, networks and relationship-based strategies (*guanxi*) feature prominently among Chinese businesses (Chow, 1997; Tan, 1996; Li et al., 1998). *Guanxi* enables firms to gain competitive advantage outside the market system through privileged access to knowledge and resources, lower transaction cost and reduced risks (Davies et al.,

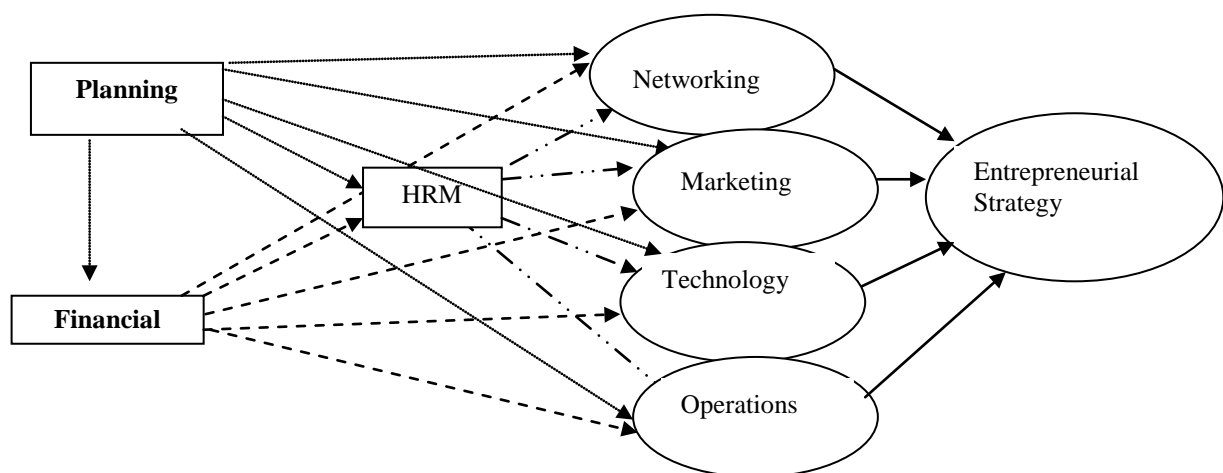
2003; Tan and Litschert, 1994; Li et al 1998; Tan, 1996; Li and Matlay, 2006). It is used to build social capital for business growth (Liao and Sohmen, 2001; Carlisle and Flynn, 2005). Park and Luo (2001) observed that although guanxi improves sales growth, market share and competitive position it does not enhance internal operations and profits. Moreover, the cost of maintaining multiple and complex relationships rise with firm growth, requiring careful management of guanxi for benefits to exceed costs (Peng, 2003).

We investigate the pattern of functional area activities that determine entrepreneurial strategies of small business in the Shaoxing textile industry, analysing which functional area activities relate directly to entrepreneurial strategy and which are associated indirectly through the functional area activities directly linked to entrepreneurial strategy. In a market-oriented industry located within an emerging market and social-based setting, we expect entrepreneurial strategy to be realized through resources and competences developed both internally and through networking. Since network ties play critical roles in pursuit of entrepreneurial strategy in Chinese businesses, the activities that comprise the networking function should directly determine entrepreneurial strategy in addition to marketing, operations and technology functional areas as explained above. Human resources support the activities of marketing, operations, technology and networking therefore, we anticipate indirect associations between activities in the HRM functional area and entrepreneurial strategy, with technology, marketing, operations and/or networking acting as mediators. We also contend that activities in the planning and financial management areas will determine activities in the other functional areas that predict entrepreneurial strategy directly or indirectly. As such, indirect relationships are suggested between planning and financial management activities and entrepreneurial strategy.

We therefore test the following hypotheses:

1. Activities in the networking, marketing, operations and technology functional areas will directly predict entrepreneurial strategy
2. HRM activities indirectly determine entrepreneurial strategy through their association with one or more of the functional areas in hypothesis 1
3. Planning and finance activities determine activities in the other functional areas and are indirectly associated with entrepreneurial strategy through activities in one or more of the functional areas in hypothesis 1.

Figure 1
Proposed Relationships



Methods

Sampling, Data Collection and Measurement of Variables

The study was restricted to the textile manufacturing industry in Shaoxing to control for exogenous factors that impact strategy. Following the definition of small manufacturing enterprises in China by the National Bureau of Statistics (2003), we examined businesses employing up to 300 workers with up to \$US3million of sales. While employee numbers exceed those for small businesses in many established market economies, we argued that in a country with abundant human resources, labor was used in place of physical capital to achieve similar output levels to those of small businesses in market economies. As such, the findings from this study should be comparable to those based on established market economies. Assistance was sought from the Shaoxing Textile Industry Association (STEA) to collect data from a representative sample of its members, the majority small businesses. In all, 532 structured questionnaires were administered to entrepreneurs at a STEA conference and 381 were completed and returned, a response rate of about 72%. Questionnaires with incomplete responses and those which did not meet the definition of small firms were excluded, leaving 248 responses that were analyzed. Only conference delegates who owned and managed their businesses were asked to complete the questionnaire and anonymity was maintained by not including any questions that identified respondents with their responses.

There were three sections to the questionnaire: a) business and owner-manager details, b) functional area activities and c) entrepreneurial strategy. A comparison of the sample characteristics with those of Chinese small businesses in the textile industry in general showed similarities in age range, education levels and gender (CTIY, 2003). About 75% of the sample had no family members involved in management of the business. The functional strategies and entrepreneurial strategy constructs were measured by the indicators detailed above, although only indicators with loadings equal or above the cut-off point (see below) were included in the analysis.

Analytical Technique

Partial Least Squares (PLS) was used to test the structural equations denoted by the hypotheses. PLS has been applied in a wide range of research areas such as business (Hulland and Kleinmuntz, 1994; Smith and Barclay, 1997), strategic management (Hulland, 1999), SME performance (Raymond, 2002), customer satisfaction (Hsu, Chen and Hsieh, 2006) and global strategy (Johansson and Yip, 1994). Unlike the structural equation models (SEM), PLS is a variance-based method that handles, quite well, several of the limitations of SEM (Chin et al., 2003). PLS avoids the problem of indeterminacy inherent in SEM and provides an exact definition of component scores by estimating the latent variables as exact linear combinations of the observed indicators (Chin 2004). The PLS model is able to handle multi-collinearity among endogenous constructs and creates latent construct scores directly on the basis of cross products involving multi-item measures (Barclay et al., 1995). In addition, PLS does not require assumption of normal distribution and can accommodate small sample sizes. The outputs from PLS analysis are therefore not the same as for SEM.

The PLS analysis generally provides two inter-related models, the measurement (outer) model and the structural (inner) model. The results for inner and outer models were analyzed in two sequential stages: the validity and reliability of the measurement model were assessed in the first stage and then the relationships depicted in the theoretical framework were analyzed from the structural model in the second stage. A number of criteria were used to evaluate the measurement model. They include individual item reliabilities (factor loadings), composite reliabilities (internal consistency), convergent validity (average variance extracted, AVE) and the discriminant validity associated with individual constructs (Chin, 1998). In this study, the cut-off values adopted for these tests were: 0.5 for factor loadings, 0.7 for a satisfactory composite reliability (Nunnally, 1978), and 0.38 for AVE (Hulland, 1999). Generally, a model has discriminant validity where the square root of the AVE for each construct is greater than the variance shared between the construct and the other constructs in the model (Gefen and Straub, 2005). Constructs and indicators that did not satisfy the cut-off values were eliminated from the model. This means not all the indicators of the functional area strategies discussed above were included in the analysis. The predictiveness of the structural model was assessed by R-squares and the bootstrapping re-sampling procedure was used to stabilize the measures (Chin et al., 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 dependent variables, should be greater

than 10 percent (Falk and Miller, 1992). Estimates of the path coefficients for the relationships tested were provided with their standard errors and t statistics which were used to ascertain the level of significance for each path coefficient. Harman's single factor test was carried out with all the indicators to test for common method bias (Podsakoff et al., 2003). The first factor explained 27% of the co-variance among the indicators. The questionnaire was anonymous and respondents could not be identified by their responses. This, together with the results of the Harman's single factor test provided sufficient confidence that respondents thought about the ratings they provided to various questions.

Results

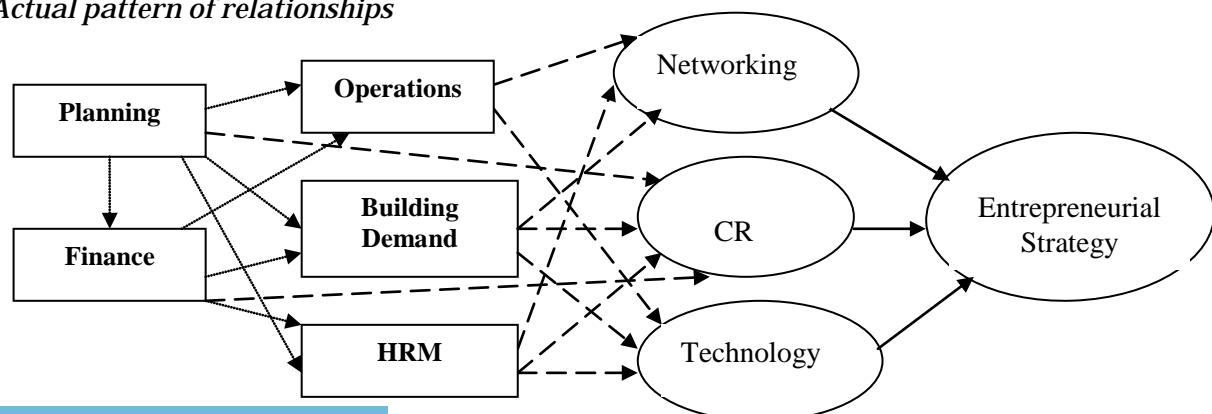
The measurement models for the constructs and their scores on the various assessment criteria are presented in Appendix I. The table shows that the constructs and their indicators met the reliability and validity cut-off points specified above. Although, correlations among the latent variables are high, as should be expected given that activities in functional areas are interrelated, the square root of the AVE for each construct was greater than the variance shared between the construct and the other constructs in the model, denoting discriminant validity. The average of the coefficient of determination (R^2) for the dependent constructs was 45 percent, indicating that the model explained a large proportion of the variations among the dependent variables.

Constructs and their Indicators

The planning construct comprised the activities of goal setting; delineation of actions to achieve goals; monitoring performance, reviewing and revising plans; analysis of financial reports and comparisons between actual and planned performance targets. There were two constructs for the marketing functional strategy. The first, labeled customer retention (CR), covered building and maintaining relationships with customers, attending to customer quality requirements and product distribution, and appropriate price setting (in relation to production cost and competition). The second marketing construct concerned building new demand through promotion, internet sales, analysis of market intelligence, and target marketing. The operations construct centered on managing quality throughout the value chain (from suppliers through in-house operations to customers) and on production efficiency. The technology construct focused on automation and upgrading of production systems, availability of resources (inventory) for efficient operations, and use of the internet for information relevant to production. The HRM construct comprised efforts to attract and retain good employees by offering above market pay rates; employee motivation (bonuses and bonding activities); internal and external training; maintaining safe, healthy and family-like work environment; inviting employees' opinions for certain decisions; and requiring and rewarding loyalty and obedience. The finance construct dealt with managing working capital (debtors, creditors and inventory) and with sources of funding including banks and retained profits. The networking construct emphasized alliances with larger, more resourced organizations; government officials; industry associations and peers in the local industry. These networks provide information and resources and assist with effective management of the business. Firms also liaised with large firms and universities for product development, although this was not frequent. Finally, indicators for the entrepreneurial strategy construct covered industry leadership based on aggressive competition and involving new product development and moderate risk-taking.

Figure 2

Actual pattern of relationships



Structural Relationships

Activities in the networking functional area were the strongest direct predictors of entrepreneurial strategy and were followed by activities associated with customer retention (CR) and then technology (table 1), providing partial support for hypothesis 1 which contended that networking, technology, operations and marketing activities will directly determine entrepreneurial strategy; the operations construct was not directly associated with entrepreneurial strategy. The constructs of building new demand, operations and HRM, had indirect and positive correlations with entrepreneurial strategy through one or more of the three functional area activities with direct links to entrepreneurial strategy (table 2), so that hypothesis 2 which predicted indirect links between activities in HRM and entrepreneurial strategy was also partly supported. It was predicted that all of operations and marketing activities will have direct and not indirect links with entrepreneurial strategy. Planning and finance positively predicted activities in the majority but not all functional areas, and were indirectly correlated with entrepreneurial strategy through the customer retention (CR) construct, therefore hypotheses 3 was also partly supported.

Table 1

Functional and Entrepreneurial Strategies: Direct Relationships

Paths between Constructs	Hypothesized Relationship	Actual Relationship	Path Coefficient (β)	t-value
Networking → Entrepreneurial Strategy	Direct +	Direct +	0.461****	7.16
CR → Entrepreneurial Strategy (ES)	Direct +	Direct +	0.187****	3.87
Technology → ES	Direct +	Direct +	0.142*	1.82
Operations → ES	Direct +	Indirect +	See table 2	
Build demand → Networking	-	Direct +	0.246****	4.19
HRM → Networking	Direct +	Direct +	0.281****	3.84
Operations → Networking	-	Direct +	0.236****	3.39
Build demand → CR	-	Direct +	0.209****	4.36
Planning → CR	Direct +	Direct +	0.171**	2.39
HRM → CR	Direct +	Direct +	0.122*	1.66
Finance → CR	Direct +	Direct +	0.331****	5.43
Build demand → Technology	-	Direct +	0.259****	4.04
Operations → Technology	-	Direct +	0.146*	1.96
HRM → Technology	Direct +	Direct +	0.435****	6.41
Planning → Demand	Direct +	Direct +	0.340****	4.10
Planning → HRM	Direct +	Direct +	0.534****	9.74
Planning → Finance	Direct +	Direct +	0.695****	12.22
Planning → Operations	Direct +	Direct +	0.419****	7.59
Finance → Demand	Direct +	Direct +	0.279***	3.28
Finance → HRM	Direct +	Direct +	0.290****	4.78
Finance → Operations	Direct +	Direct +	0.391****	7.33

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$, **** $p < 0.0001$ one tailed

Table 2
Functional and Entrepreneurial Strategies: Indirect Relationships

Paths between Constructs	Hypothesized Relationships	Empirical Links	Path Coefficient (β)	P-value
Operations → Network → ES	-	Indirect +	3.06***	0.002
Build demand → Network → ES	-	Indirect +	3.62****	0.0003
HRM → Network → ES	Indirect +	Indirect +	3.38****	0.0007
Build demand → CR → ES	-	Indirect +	2.89***	0.0038
HRM → CR → ES	Indirect +	Indirect +	1.53	0.126
Planning → CR → ES	Indirect +	Indirect +	2.04**	0.042
Finance → CR → ES	Indirect +	Indirect +	3.15***	0.002
Operations → Technology → ES	-	Indirect +	1.34	0.18
Build demand → Technology → ES	-	Indirect +	1.66*	0.09
HRM → Technology → ES	Indirect +	Indirect +	1.76*	0.08

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$, **** $p < 0.001$, one tailed

Discussion

The study ascertained the configuration of functional area activities associated with entrepreneurial strategy. The findings showed that market-based activities dealing with customer retention and technology, along-side networking, are critical to successful entrepreneurial strategy in a progressive industry located in an emerging market environment where personal relationships are important in all aspects of life. Firms unable to develop the relationships necessary for accessing relevant resources and opportunities are unlikely to be as successful in their pursuit of entrepreneurial strategy as those firms which invest in developing and managing relationships.

The findings of this study indicate that while entrepreneurial strategy has global application, the interrelationships among functional areas activities that lead to its realization will vary with the micro and macro settings in which the business operates. In an emerging market environment where business resources are relatively scarce and personal relationships important, both market- and social-based activities become essential for accessing resources and developing the competencies required to realize entrepreneurial strategy. It is therefore not surprising that networking activities are strongly related to entrepreneurial strategy. These findings are consistent with a string of research that have demonstrated positive links between networking and business performance for Chinese businesses (Li, 2005; Wu and Leung, 2005; Zhang and Li, 2008). Gao et al.'s (2008) work revealed positive links between networks and innovation. Xin and Pearce (1996) and Peng and Heath (1996) noted that effective networks boost capacity for information generation and transmission and provide access to supplementary assets, advanced technology and entrepreneurial energy, enabling SMEs to pursue growth opportunities. The pooling and coordination of resources in a network also facilitates economies of scale, scope and organizational learning that reduce uncertainties (Hoskisson et al., 2000). Despite China's growing wealth and global economic position, relationships continue to dominate business activities due to the enduring social system that permeates all endeavors. In effect, in a less than perfect market environment, building social capital through network ties is critical to entrepreneurial strategies that enhance performance (Peng and Luo, 2000). While networks are also important to businesses in full market economies, an effective legal system that governs contractual relationships enables access to resources without the close ties required to access resources and opportunities in a social-based setting such as China.

The direct positive links between entrepreneurial strategy and activities associated with customer retention (CR) and technology functions emphasize the key positions of customers and innovation to successful performance in competitive markets (Davies and Walters, 2004). These associations are consistent with progress towards a market economy where social capital alone is

insufficient for pursuing entrepreneurial strategy. According to Scarborough (2011:305) 'loyal, long-term customers are the bedrock of every business' and 'high customer retention rates translate into superior financial performance'. Developing relationships with existing customers and attending to the mix of benefits required to meet their needs (pricing, product quality and distribution) are critical to successful pursuit of entrepreneurial strategy. Products are sold to business customers so that building and maintaining relationships with them are vital to realizing entrepreneurial strategy.

In an industry where success depends on high and consistent product quality, new product development and efficient operations, technology is another functional area of direct importance to entrepreneurial strategy. Proactive Chinese firms in the textile industry automate and update their production systems to keep up with new developments in the global industry. Firms unable to individually acquire the relevant technologies do so through their networks. White and Liu (2001) noted that despite increasing autonomy to develop or acquire their own technologies, Chinese manufacturing firms continue to rely on technology from network partners and research institutions. The findings also demonstrate that technology in the industry is generally associated with automation of production processes and involves relationships with suppliers for uninterrupted access to inventory and efficient operations. As part of information technology, the internet is used to stay up to date on issues relevant to the business.

In summary, pursuit of entrepreneurial strategy in Chinese textile small manufacturing firms calls for internal competencies for building social capital, managing relationships with customers and accessing relevant technology to meet global product quality standards and to stay in touch with developments in the industry. While these are the core functional area activities with direct links to entrepreneurial strategy in the Chinese textile industry, they are themselves made effective by their association with other activities that indirectly determine entrepreneurial strategy. For example, loyal, well trained and motivated employees are critical to building lasting business relationships and for effective use of technology. In the family environment that characterizes Chinese small businesses (Lin and Si, 2010), employees, their families and close connections become part of the business networks and are essential to achieving the goals of innovation and industry leadership. Employees are trained to ensure customer needs are met.

An entrepreneurial strategic orientation also requires building new demand for growth and developing an efficient production process that meets the needs of target customers (Scarborough et al., 2009). Therefore, the activities that comprise the operations and building demand constructs also indirectly determine entrepreneurial strategy through their direct associations with networking, customer retention and/or technology. The findings suggest efforts to target customers with similar profiles and needs to existing customers, as indicated by the direct association between building new demand and customer retention (CR), technology and networking. New customers are included in the customer retention function, ensuring that all customer needs are met by the same marketing mix. Reducing heterogeneity among customers enables small businesses to direct efforts towards a limited set of strategic dimensions (Davies and Walters, 2004). Although building new demand is a market-based activity, its association with networking is worth noting. New customers become part of the firm's network and assist in attracting other customers. It was expected that operations will be directly associated with entrepreneurial strategy, however, the results show that it has an indirect association through networking and technology. The operations system determines the type of technology required and network ties that need to be developed for access to relevant resources.

Activities in several functional areas; building demand, HRM, operations and finance, are planned, monitored and reviewed. The positive correlations between planning and these functional area activities are consistent with the literature review above. The planning process also indirectly determines entrepreneurial strategy through its link with customer retention. For a holistic and cohesive system that supports entrepreneurial strategy and ensures targets are met, it is important that activities in the various functional areas are planned, monitored and reviewed over time. That planning has no link with networking may indicate that business relations are spontaneous; the business develops relationships with persons or organizations important to achieving its goals, and these are likely to be family and other close associates (Fukuyama, 1995).

Sources and availability of funding determine activities associated with building demand, HRM and operations, all of which must be financed. Activities in the finance area also indirectly determine pursuit of entrepreneurial strategy through their association with customer retention.

Customer retention covers pricing which is a basis of income for the business. The absence of a link between finance and networking is consistent with the spontaneity of relationships as mentioned above.

The findings indicate that market-based activities become important to pursuit of entrepreneurial strategy as the country moves to an established market system with prices and sales determined by the market system rather than by government controlled prices. However, the market system operates side by side an enduring social system based on families, kinships, and clans that extend to business transactions and cannot be ignored in pursuit of entrepreneurial strategy. As Fukuyama (1995) noted, the social system with ethical rules and norms as the basis of trust may result in more efficient transaction cost than a bureaucratic regulatory system based on rules, contracts and litigation. Nonetheless, reliance on the social system has its downside and the net effect may be more costly than beneficial to the business (Peng, 2003; Yang and Li, 2008; Tan and Tan, 2005). Effective management of relationships in the networks is critical to successful pursuit of entrepreneurial strategy. Firms must be cognizant of and attend to the risks of depending on network partners, particularly the risks of collaborators with divergent economic interests exploiting the trust and mutual agreements negotiated (Peng, 2002).

Summary and Conclusion

The study aim was to ascertain the pattern among functional area activities that lead to realization of entrepreneurial strategy. The findings showed that market-based activities of customer relations and technology management, along-side networking, are critical to successful entrepreneurial strategy in a progressive industry located in a transition environment where close relationships are important to all aspects of life. Firms unable to develop the relationships necessary for accessing relevant resources and opportunities are unlikely to be as successful in their pursuit of entrepreneurial strategy as firms that invest in developing and managing relationships. It is not clear as to whether Chinese businesses will embrace fully the market system and develop their own individual competences for direct competition. It will be interesting to compare findings from this study with the patterns by which functional area activities lead to realization of entrepreneurial strategies in other economic and industry settings. Further, an investigation into the characteristics of firms that pursue entrepreneurial strategies will add to the extant literature.

The limitations of the study include the small sample size and restriction to one industry sector in one town, which limit generalization of the findings.

Reference List

- Andersson, U.L.F., Forsgren, M. and Holm, U. (2002), "The strategic impact of external networks: Subsidiary performance and competence development in the multinational corporation", *Strategic Management Journal*, Vol. 23, pp. 979-996.
- Aranda, D.A. (2002), "Relationship between operations strategy and size in engineering consulting firms", *International Journal of Service Industry Management*, Vol. 13 No. (3/4), pp. 263-285.
- Bhalla, A., Lampel J., Henderson S. and Watkins D. (2009), "Exploring alternative strategic management paradigms in high growth ethnic and non-ethnic firms", *Small Business Economics*, Vol. 32, pp. 77-94.
- Bradley, F. (1991), *International marketing strategy*; Prentice Hall.
- Carlisle, E. and David, F. (2005), "Small business survival in China: Guanxi, legitimacy and social capital", *Journal of Developmental Entrepreneurship* Vol. 10 No. 1, pp. 79-96.
- Chaffee, E. E. (1985), "Three models of strategy", *Academy of Management Review*, Vol. 10 No. 1, pp. 89-98.
- Chakravarthy, B. (1997), "A new strategy framework for coping with turbulence", *Sloan Management Review*, Vol. 38 No. 3, pp. 69-82.

- Chenhall, R.H. and Morris, D. (1995), "Organic decision and communication processes and management accounting systems in entrepreneurial and conservative organizations", *Omega*, Vol. 23 No. 5, pp. 485-497.
- Chin, W.W. (1998), "The partial least squares approach to structural equation modeling", In *Modern Methods for Business Research*. Marcoulides G.A (ed). Lawrence Erlbaum Associate: Marwah N.J., pp. 295-336.
- Chin, W.W., Marcolin, B.L., and Newsted, P.R. (2003), "A partial least squares latent variable modeling approach for measuring interaction effects: Results from a Monte Carlo simulation study and an electronic-mail emotion/adoption study", *Information Systems Research*, Vol. 14 No. 2, pp. 189-217.
- Chow, G.C. (1997), "Challenges of China's economic system for economic theory". *The American Economic Review*, Vol. 87 No. 2, pp. 321-327. In Collis, D.J. and Rukstad, M.G. (2008), Can you say what your strategy is? *Harvard Business Review*, Vol. 86 No. 4, pp. 82-90.
- Conner, D.R. (1998), *Leading at the Edge of Chaos: How to Create the Nimble Organisation*. John Wiley, New York.
- Covin, J.G. (1991), "Entrepreneurial versus conservative firms: A comparison of strategies and performance", *Journal of Management Studies*, Vol. 28 No. 5, pp. 439-462.
- Covin, J.G. and Slevin, D.P. (1989), "Strategic management of small firms in hostile and benign environment", *Strategic Management Journal*, Vol. 10 No. 1, pp. 75-87.
- Covin, J.G., Green, K.M. and Slevin, D.P. (2006), "Strategic process effects on the entrepreneurial orientation – sales growth rate relationship", *Entrepreneurship Theory and Practice*, Vol. 30 No. 1, pp. 57-81.
- CTIY (China Textile Industry Yearbook) (2003), China Textile Publishing, Beijing.
- Damaskopoulos, T., Gatautis, R. and Vitkauskaitė, E. (2008), "Extended and dynamic clustering of SMEs", *Engineering Economics: Economics of Engineering Decisions*, Vol. 56 No. 1, pp. 11-21.
- Davies, H. and Walters, P. (2004), "Emergent patterns of strategy, environment and performance in a transitional economy", *Strategic Management Journal*, Vol. 25 No. 4, pp. 347-364.
- Davies, H, Leung, T, Luk, T, and Wong, Y H. (2003), "Guanxi and business practices in the People's Republic of China", In *Chinese Culture, Organizational Behaviour, and International Business Management*. Alon I, Wesport CT (eds) Praeger, pp. 41-56.
- Dess, G.G, Lumpkin, G.T., and Covin, J. (1997), "Entrepreneurial strategy making and firm performance: Tests of contingency and configurational models", *Strategic Management Journal*, Vol. 18 No. 9, pp. 677-695.
- Dess, G.G, Lumpkin, G.T. and Eisner, A.B. (2008), *Strategic Management: Text and Cases*, 4th Edition, McGraw Hill, Boston.
- De Wit, B. and Meyer, R. (1998), *Strategy: Process, Content, Context*. International Thomson Business Press, London.
- Dollinger, M. and Golden, P. (1992), "Interorganizational and collective strategies in small firms: Environmental effects and performance", *Journal of Management*, Vol. 18 No. 4, pp. 659-716.
- Falk, F.R. and Miller, N.B. (1992), *A Primer for the Soft Modeling*. University of Akron Press, Akron Ohio.
- Fukuyama, F. (1995), "Social capital and the global economy", *Foreign Affairs*, September/October, pp. 89-103.
- Galbraith, C. and Schendel, D. (1983), "An empirical analysis of strategy types", *Strategic Management Journal*, Vol. 4 No. 2, pp. 153-173.
- Gangani, N., McLean, G.N. and Braden, R.A. (2006), "A competency-based human resource development strategy", *Performance Improvement Quarterly*, Vol. 19 No. 1, pp. 127-140.
- Gao, S., Xu K., Yang, J (2008), "Managerial ties, absorptive capacity, and innovation". *Asia Pacific Journal of Management*. Vol. 25 No. 3, pp. 395-412.
- Gao, Ke, (2008), *SME Performance and Its Determinants: An Empirical Study in the Chinese Transitional Context*, Thesis submitted for the award of Doctor of Philosophy at the University of New England.
- Gefen, D. and Straub, D. (2005), "A practical guide to factorial validity using PLS-graph: Tutorial and annotated example", *Communication of the Association for Information Systems*, Vol. 16, pp. 91-109.
- Georgellis, Y., Joyce, P. and Woods, A. (2000), "Entrepreneurial action, innovation and business performance", *Journal of Small Business Development*, Vol. 1 No. 1, pp. 7-17.
- Gray, J. (1997), "Small business strategy in Australia", *Academy of Entrepreneurship Journal*, Vol. 2 No. 2, pp. 44-58.

- Gulati, R., Nohria, N. and Zaheer, A. (2000), "Strategic networks", *Strategic Management Journal*, Vol. 21, pp. 203-215.
- Hakansson, H. and Ford, D. (2002), "How should companies interact in business networks?" *Journal of Business Research*, Vol. 55, pp. 133-139.
- Hakansson, H. and Johanson, J. (1992), "A model of industrial networks", In *Industrial Networks: A New View of Reality*. Axelsson B, Easton G. (eds). Routledge, London, UK, pp. 28-34.
- Hambrick, D.C. (1980), "Operationalising the concept of business level strategy in research", *Academy of Management Review*, Vol. 5, pp. 567-575.
- Hambrick, D.C. (1983), "Some tests of the effectiveness and functional attributes of Miles and Snow's strategic types", *Academy of Management Journal*, Vol. 26, pp. 5-26.
- Hamel, G., Doz, Y.L. and Prahalad, C.K. (1989), "Collaborate with your competitors and win", *Harvard Business Review*, Vol. 67 No. 1, pp. 133-139.
- Hill, C.W.L. and Jones, G.R. (2012), *Essentials of Strategic Management*, 3rd Edition, South-Western Cengage learning, Mason.
- Hodgetts, R.M. and Kuratko, D.F. (2008), *Essential Tools and Skills for Entrepreneurial Success in Small Business Management*. John Wiley & Sons Inc: New York, pp. 51-57.
- Hoskisson, R.E., Eden, L., Lau, C.M. and Wright, M. (2000), "Strategy in emerging economies", *Academy of Management Journal*, Vol. 43 No. 3, pp. 249-267
- Hrebiniak, L. G. (1990), "Implementing strategy", *Chief Executive*, Vol. 57, pp. 74-77.
- Hsu, S.W., Chen, W.H. and Hsieh, M.J. (2006), "Robustness testing of PLS, LISREL, EQS and ANN-based SEM for measuring customer satisfaction", *Total Quality Management*, Vol. 17 No. 3, pp. 355-371.
- Hulland, J.S. (1999), "Use of Partial Least Squares (PLS) in strategic management research: A review of four recent studies", *Strategic Management Journal*. Vol. 20 No. 2, pp. 195-204.
- Hulland, J.S. and Kleinmuntz, D.N. (1994), "Factors influencing the use of internal summary evaluations versus external information in choice", *Journal of Behavioural Decision Making*, Vol. 7 No. 2, pp. 79-102.
- Ireland, D.R., Hitt, M.A. and Sirmon, D.G. (2003), "A model of strategic entrepreneurship: The construct and its dimensions", *Journal of Management*, Vol. 29 No. 6, pp. 963-989.
- Johansson, J.K. and Yip, G.S. (1994), "Exploiting globalization potential: U.S. and Japanese strategies", *Strategic Management Journal*, Vol. 15 No. 8, pp. 579-601.
- Johnson, G., Scholes, K. and Whittington, R. (2008), *Exploring Corporate Strategy: Text and Cases*, 8th Edition, Prentice Hall, Harlow.
- Julien, P.A., Andriambeloson, E. Ramangalahy, C. (2004), "Networks, weak signals and technological innovations among SMEs in the land-based transportation equipment sector", *Entrepreneurship and Regional Development*, Vol. 16 No. 4, pp. 251-269.
- Kickul, J. and Gundry, L. (2002), "Prospecting for strategic advantage: The proactive entrepreneurial personality and small firm innovation", *Journal of Small Business Management*, Vol. 40 No. 2, pp. 85-97.
- King, S.F. and Burgess, T.F. (2008), "Understanding success and failure in customer relationship management", *Industrial Marketing Management*, Vol. 37, pp. 421-431.
- Kotey, B. and Meredith, G.G. (1997), "Relationship among owner/manager personal values, business strategies and enterprise performance", *Journal of Small Business Management*, Vol. 32 No. 2, pp. 37-64.
- Kotey, B. and Harker, M. (1998), "A framework for examining strategy and strategy-types in small firms", *The 43rd ICSB World Conference Proceedings*, Singapore.
- Lau, C.M. and Busenitz, L. (2001), "Growth intentions of entrepreneurs in a transitional economy: The People's Republic of China", *Entrepreneurship Theory and Practice*, Vol. 26 No. 1, pp. 5-21.
- Li, J.J. (2005), "The formation of managerial networks of foreign firms in China: The effects of strategic orientation". *Asia Pacific Journal of Management*, Vol. 22 No. 4, pp. 423-443.
- Li, J. and Matlay, H. (2006), "Chinese entrepreneurship and small business development: An overview and research agenda", *Journal of Small Business and Enterprise Development*, Vol. 13 No. 2, pp. 248-262.
- Li, S., Li, M. and Tan, J. (1998), "Understanding diversification in a transition economy: A theoretical exploration", *Journal of Applied Management Studies*, Vol. 7 No. 1, pp. 77-79.
- Liao, D. and Sohmen, P. (2001), "The development of modern entrepreneurship in China", *East Asian Affairs*, Vol. 1 No. 1, pp. 27-33.
- Lin, J. and Si, S. X. (2010), "Can guanxi be a problem? Contexts, ties and some unfavorable consequences of social capital in China", *Asia Pacific Journal of Management*, Vol. 27, pp. 561-581.

- Liu, X. (2004), "The comparative research on the competitiveness of Shaoxing textile enterprises cluster", *Journal of Wanli College Zhejiang* Vol. 6, pp. 33-50
- Lukas, B.A., Tan, J.J. and Hult, T.G.M. (2001), "Strategic fit in transitional economies: The case of China's electronics industry", *Journal of Management*, Vol. 27 No. 4, pp. 409-429.
- Lumpkin, T.G. and Dess, G.G. (1996), "Clarifying the entrepreneurial orientation construct and linking it to performance", *Academy of Management Review*, Vol. 21 No. 1, pp. 135-172.
- Luo, Y. (1999), "Environment-strategy-performance relations in small business in China: A Case of township and village enterprises in Southern China", *Journal of Small Business Management*, Vol. 37 No. 1, pp. 37-52.
- Luo, Y. and Park, S.H. (2001), "Strategic alignment and performance of market-seeking MNCs in China", *Strategic Management Journal*, Vol. 22 No. 2, pp. 141-155.
- Mason, R.B. (2007), "The external environment's effect on management and strategy: A complexity theory approach", *Management Decision*, Vol. 45 No. 1, pp. 10-28.
- McClelland, S. (1994), "Gaining competitive advantage through strategic management development (SMD)", *Journal of Management Development*, Vol. 13 No. 5, pp. 4-13.
- Mia, L. (1996), *Intensity of market competition, Use of strategic management accounting and Business unit performance*; Paper presented at a research seminar held at School of Accounting, The University of New South Wales, and supported by KPMG, April 26.
- Miles, R.E. and Snow, C.C. (1978), *Organisational Strategy, Structure and Process*. McGraw-Hill: New York.
- Miller, D. (1983), "The correlates of entrepreneurship in three types of firms", *Management Science*, Vol. 29 No. 7, pp. 770-791.
- Mintzberg, H. (1990), "The design school: reconsidering the basic premises of strategic management", *Strategic Management Journal*, Vol. 11 No. 3, pp. 171-195.
- Mintzberg, H. and Waters, J. (1985), "Of strategies deliberate and emerged", *Strategic Management Journal*, Vol. 6 No. 3, pp. 257-272.
- Mintzberg, H. Quinn, J. and Voyer, J. (1995), *The Strategy Process*. Prentice Hall, Englewood Cliffs, New Jersey.
- Morris, M.H. and Jones, F.F. (1999), "Entrepreneurship in established organizations: The case of the public sector", *Entrepreneurship Theory and Practice*, Vol. 24 No. 1, pp. 71-91.
- North, D.C. (1990), *Institutions, Institutional Change and Economic Performance*. University Press: Cambridge UK.
- Nunnally, J. (1978), *Psychometric Theory*. Mc-Graw-Hill, New York.
- Oggers, J. (2002), *Exploring Strategic Analysis and Decision Making*. McGraw Hill: Boston.
- Oi, J.C. (1995), "The role of the local State in China's transitional economy", *The China Quarterly*, Vol. 144, pp. 1132-1149.
- Oliver, C. (1991), "Strategic responses to institutional processes", *Academy of Management Review*, Vol. 16 No. 1, pp. 145-179.
- Osarenkhoe, A. and Bennani, A.E. (2007), "An exploratory study of implementation of customer relationship management strategy", *Business Process management Journal*, Vol. 13 No. 1, pp. 139-164.
- Paige, R.C. and Littrell, M.A. (2002), "Craft retailers' criteria for success and associated business strategies", *Journal of Small Business Management*, Vol. 40 No. 4, pp. 314-331.
- Park, S. and Luo, Y. (2001), "Guanxi and organizational dynamics: Organizational networking in Chinese firms", *Strategic Management Journal*, Vol. 22 No. 5, pp. 455-477.
- Parvatiyar, A. and Sheth, J.N. (2001), "Customer relationship management: Emerging practice, process, and discipline", *Journal of Economic & Social Research*, Vol. 3, pp. 1-34.
- Patrick, T. and O'Connor, T. (2005), "Influence on strategic planning processes among Irish SMEs", *Journal of Small Business Management*, Vol. 43 No. 2, pp. 170-186.
- Pearce, J. and Robinson, R. (2007), *Strategic Management: Strategy Formulation Implementation and Control*, 10th edition, McGraw-Hill Higher Education: NY.
- Pelham, A.M. and Lieb, P. (2004), "Differences between presidents', and sales managers' perceptions of the industry environment and firm strategy in small industrial firms: Relationship to performance satisfaction", *Journal of Small Business Management*, Vol. 42 No. 2, pp. 174-189.
- Peng, M.W. (2000), *Business Strategies in Transition Economies*. Sage: Thousand Oaks, CA.
- Peng, M.W. (2002), "Towards an institution-based view of business strategy", *Asia Pacific Journal of Management*, Vol. 19 No. 2/3, pp. 251-267.
- Peng, M.W. (2003), "Institutional transitions and strategic choices", *Academy of Management Review*, Vol. 28 No. 2, pp. 275-296.

- Peng, M.W and Luo, Y. (2000), "Managerial ties and firm performance in a transitional economy: The nature of a micro-macro link", *Academy of Management Journal*, Vol. 43 No. 3, pp. 486-501.
- Peng, M.W. and Heath, P.S. (1996), "The growth of the firm in planned economies in transition: Institutions, organisations and strategic choices", *Academy of Management Review*, Vol. 21 No. 2, pp. 492 – 528.
- Perry, C. (2001), "The relationship between written business plans and the failure of small businesses in the US", *Journal of Small Business Management*, Vol. 39 No. 3, pp. 201-208.
- Podaskoff, P., Mackenzie, S., Lee, J. and Podsakoff, N. (2003), "Common method bias in behavioral research: A critical review of the literature and recommended remedies". *Journal of Applied Psychology*, Vol. 88, pp. 879-903.
- Pollard, C and Hayne, S. (1998), "The changing face of information system issue in small firms", *International Small Business Journal*, Vol. 16 No. 3, pp. 70 – 87.
- Porter, M. (1980), *Competitive Strategy*. Free Press, New York.
- Porter, M. (1990), *The Competitive Advantage of Nation*. Free Press, New York.
- Porter, M. (1991), "Towards a dynamic theory of strategy", *Strategic Management Journal*, Vol. 12 (Winter Special Issue), pp. 95-117.
- Rauch, A., Wiklund, J., Lumpkin, G.T. and Frese, M. (2009), "Entrepreneurial orientation and business performance: An assessment of past research and suggestions for the future", *Entrepreneurship Theory and Practice*, Vol. 33 No. 3, pp. 767-787.
- Raymond, L. (2002), "Performance effects of commercial dependency for manufacturing SMEs",. Paper presented at *National Meeting of the Academy of Business Administration*. Key West, Florida, pp. 17-22.
- Reinartz, W. and Krafft, M. (2004), "The customer relationship management process: Its measurement and impact on performance", *Journal of Marketing Research*, Vol. 41 No. 3, pp. 293-305.
- Ritter, T., Wilkinson, I.F. and Johnston, W.J. (2004), "Managing in complex business networks", *Industrial Marketing Management*, Vol. 33, pp. 175-183.
- Sashittal, H. and Tankersley, C. (1997), "The strategic market planning -implementation interface in small and mid-sized industrial firms: An exploratory study", *Journal of Marketing Theory and Practice*, Vol. 5 No. 3, pp. 77-92.
- Scarborough, N.M., Wilson, D.L. and Zimmerer, T.W. (2009), *Small Business Management: An Entrepreneurial Approach*, 9th edition. Prentice Hall, New Jersey.
- Scarborough, N.M (2011), *Effective Small Business Management: An International Version*, 10th revised edition, Pearson Education, USA.
- Smallbone, D., Leig, R. and North, D. (1995), "The characteristics and strategies of high growth SMEs", *International Journal of Entrepreneurial Behaviour & Research*, Vol. 1 No. 3, pp. 44-62.
- Smith, B.J. and Barclay, D.W. (1997), "The effects of organizational differences and trust on the effectiveness of selling partner relationships", *Journal of Marketing*, Vol. 61 No. 1, pp. 3-21.
- Snow, C.C. and Hambrick, D. C. (1980), "Measuring organisational strategies: Some theoretical and methodological problems", *Academy of Management Review*, Vol. 5 No. 4, pp. 527-538.
- Tan, J.J. (1996), "Regulatory environment and strategic orientation in a transitional economy: A study of Chinese private enterprise", *Entrepreneurship Theory and Practice*, Vol. 21 No. 1, pp. 31-44.
- Tan, J.J. and Litschert, R.J. (1994), "Environment-strategy relationship and its performance implications: An empirical study of Chinese electronics industry", *Strategic Management Journal*, Vol. 15 No. 1, pp. 1-20.
- Tan, J.J and Tan, D. (2005), "Environment, strategy co-evolution and co-alignment: A staged model of Chinese SOEs under transition", *Strategic Management Journal*, Vol. 26 No. 2, pp. 141-157.
- Thompson A. and Strickland A. (2003), *Strategic Management: Concepts and Cases*. McGraw-Hill, Boston.
- Thompson, A.A., Peteraf, M.A., Gamble, J.E. and Strickland III, A.J. (2012), *Crafting and Executing Strategy: Concepts and Readings*, 18th Edition, McGraw Hill Irwin: NY.
- Uhlenbruck, K.K., Meyer, K.E., and Hitt, M.A. (2003), "Organizational transformation in transition economies: Resource-based and organizational learning perspective", *Journal of Management Studies*, Vol. 40 No. 2, pp. 257-282.
- Venkatraman, N. (1989), "Strategic orientation of business enterprises: The construct, dimensionality and measurement", *Management Science*, Vol. 35 No. 8, pp. 942-962.

- Wang, W. (2005), "Technological innovation of SMEs in cluster: A case study in Shaoxing (In Chinese)", *Journal of Science and Technological Progress*, Vol. 2, pp. 160-175.
- White, S. and Liu, X. (2001), "Transition trajectories for market structure and firm strategy in China", *Journal of Management Studies*, Vol. 38 No. 1, pp. 103-124.
- Whittington, R. (2001), *What is Strategy: And Does It Matter?* 2nd Edition, Thomson Learning, London.
- Woods, A. and Joyce, P. (2003), "Owner-manager and the practice of strategic management", *International Small Business Journal*, Vol. 21 No. 2, pp. 181-193.
- Wu, W. and Leung, A. (2005), "Does a micro-macro link exist between managerial value of reciprocity, social capital and firm performance? The case of SMEs in China", *Asia Pacific Journal of Management*, Vol. 22 No. 4, pp. 445-463.
- Xin, K.R. and Pearce, J.L. (1996), "Guanxi: Connections as substitutes for formal institutional support", *Academy of Management Journal*, Vol. 39 No. 6, pp. 1641-1658.
- Yang, J.Y. and Li, J. (2008), "The development of entrepreneurship in China", *Asia Pacific Journal of Management*, Vol. 25 No. 2, pp. 335-359.
- Zhang, S. and Li, X. (2008), "Managerial ties, firm resources and performance of cluster firms", *Asia Pacific Journal of Management*, Vol. 25 No. 4, pp. 615-633.

Appendix I. Results of Reliability and Validity Measurement for Strategy Constructs

Constructs and Measures	Mean	Std Dev	Factor Loadings
Planning (PL): Composite Reliability = 0.85 AVE = 0.53			
Set business goals	3.33	1.15	0.72
Make plans and decisions on how to achieve goals	3.55	0.96	0.74
Monitor performance, review & revise initial plans if necessary	3.46	0.93	0.66
Analyze financial reports	3.73	1.04	0.70
Compare actual financial performance with business goal	3.72	1.04	0.71
Customer Retention Composite Reliability =0.83 AVE =0.45			
Set price in relation to competitors' prices	3.50	0.95	0.63
Set price in relation to production costs	3.42	0.94	0.63
Obtain feedback for improving quality	3.57	0.89	0.70
Build long term relationship with customers	3.55	1.05	0.76
Develop a sale distribution network	3.44	1.08	0.64
Work on relationship with trading partners (customers)	3.59	1.13	0.62
Building Demand Composite Reliability =0.81 AVE =0.45			
Search for new customers	3.47	1.05	0.68
Use internet to sell products to new customers	3.07	1.21	0.70
Regularly obtain & analyze market information	3.14	1.24	0.68
Sell to specific target groups	3.47	1.05	0.64
Advertise products	3.19	1.09	0.66
Operation (OP): Composite Reliability = 0.85 AVE =0.56			
Attention to quality in production	3.59	1.07	0.78
Attention to cost of operations	3.47	1.03	0.71
Provide feedback to suppliers for improving quality	3.47	1.01	0.71
Draw up a set of written rules for quality control	3.59	1.07	0.72
Routinely get feedback from customers for improving quality	3.55	1.03	0.73
Technology (IT) Composite Reliability = 0.79 AVE =0.51			
Ensure adequate inventory to meet production	3.06	1.16	0.58
Highly automate production process	3.06	1.19	0.68
Keep up with changing production technology	3.26	1.08	0.76
Adopt computer systems for improving production	3.62	1.11	0.72
Search for information relevant to business from the internet	2.71	1.10	0.57

Appendix I Continued. Results of Reliability and Validity Measurement for Strategy Constructs

Constructs and Measures	Mean	Std Dev	Factor Loadings
Human Resource (HR): Composite Reliability = 0.87 AVE =0.44			
Explain the enterprise goals and policies to staff	3.38	1.08	0.67
Pay employees above the average rate to attract staff	3.35	1.11	0.60
Maintain a family environment	3.55	0.95	0.62
Provide on-the-job training	3.42	1.14	0.63
Pay for employees' external training	3.34	1.10	0.57
Pay bonuses to employees based on performance	3.54	1.07	0.68
Sponsor entertainment activities for staff	3.33	1.10	0.67
Promote loyal and obedient staff	3.40	1.09	0.64
Value opinions of employees on improving performance	3.49	1.08	0.69
Emphasize safe and healthy working conditions	3.43	1.13	0.63
Finance (FIN): Composite Reliability = 0.84 AVE =0.47			
Ensure that credit customers pay on time	3.53	0.97	0.62
Pay suppliers on time	3.61	0.96	0.74
Keep good credit standing with the banks	3.82	1.01	0.73
Keep low inventory by producing to actual client orders	3.55	0.96	0.71
Have a stable channel for raising capital	3.50	1.02	0.60
Reinvest profit into the business annually	3.32	1.08	0.69
Network Strategy (NS): Composite Reliability = 0.83 AVE =0.42			
Cooperate with large companies to improve management	3.42	1.06	0.63
Develop relationships with large firms for information	3.41	1.10	0.67
Cooperate with large firms in new products R&D	2.71	1.17	0.69
Cooperate with universities for R&D	2.78	1.27	0.63
Build good relationships with the government for information	3.20	1.12	0.73
Build effective alliances with other businesses	3.35	1.01	0.55
Build networks with local industry association	3.28	1.11	0.59
Entrepreneurial Strategy: Composite Reliability = 0.80 AVE =0.50			
Adopt a very competitive, 'undo-the-competitor posture	3.33	0.96	0.74
Introduce new products more often than competitors	3.28	0.99	0.74
Have a strong propensity to undertake high-risk projects	2.90	1.08	0.56
Aim at leading changes in the industry	3.39	1.04	0.76

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.