

Overcoming barriers to enterprise in new China: Cases from the property-development industry in a regional city

Author:

Yu, Junfan

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Overcoming barriers to enterprise in new China: Cases from the property-development industry in a regional city

Junfan Yu

A thesis in fulfilment of the requirements of the degree of
Doctor of Philosophy



School of Business, UNSW Canberra

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This research investigates the survival and growth of private enterprise in China through studying the experience of three private property-development enterprises and their strategies to overcome barriers. Although China's private sector is becoming a significant contributor to its economic growth, the process of how specific enterprises operate has not been thoroughly researched. This study uses existing literature on China's private sector and property-development industry to identify impediments to successful operation likely to be encountered by private property developers in China. These impediments include regulatory, land-access and financial barriers as well as imperfect company management.

This research confirms the importance of personal networks and trust in China's property-development industry. It further finds that networks are not the cause of Chinese business activity, but are an adaptive entrepreneurial response to uncertainties in the business environment. Scott and Bruce's (1987) stages of small business growth illuminates the analysis which finds that Chinese business behaviour is governed as much by the stages of development of business as by any overarching cultural factors. This is contrary to much academic commentary, which has focused on the use of networks (*guanxi*) to explain Chinese business behaviour. In the case narratives developed for this thesis, networks, especially relationships with government officials, were important to address barriers in the early stages of growth. In later stages, managerial capacities of the enterprise determined performance.

This research provides deeper understanding of how private property-development enterprises survive and grow in China. This was achieved through detailed record and analysis of the actions of the case narrative enterprises in operating in the difficult and complex business environment of China. Important information was collected through in-depth interviews with key informants, company documents and media reports. This research has both academic and practical implications. It contributes to entrepreneurship literature through providing in-depth examples of how private property developers overcome barriers to growth. It contributes to policy debate by illustrating the actual experience of Chinese entrepreneurs operating in this industry.

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Abstract

This research investigates the survival and growth of private enterprise in China through studying the experience of three private property-development enterprises and their strategies to overcome barriers. Although China's private sector is becoming a significant contributor to its economic growth, the process of how specific enterprises operate has not been thoroughly researched. This study uses existing literature on China's private sector and property-development industry to identify impediments to successful operation likely to be encountered by private property developers in China. These impediments include regulatory, land-access and financial barriers as well as imperfect company management.

This research confirms the importance of personal networks and trust in China's property-development industry. It further finds that networks are not the cause of Chinese business activity, but are an adaptive entrepreneurial response to uncertainties in the business environment. Scott and Bruce's (1987) stages of small business growth illuminates the analysis which finds that Chinese business behaviour is governed as much by the stages of development of business as by any overarching cultural factors. This is contrary to much academic commentary, which has focused on the use of networks (*guanxi*) to explain Chinese business behaviour. In the case narratives developed for this thesis, networks, especially relationships with government officials, were important to address barriers in the early stages of growth. In later stages, managerial capacities of the enterprise determined performance.

This research provides deeper understanding of how private property-development enterprises survive and grow in China. This was achieved through detailed record and analysis of the actions of the case narrative enterprises in operating in the difficult and complex business environment of China. Important information was collected through in-depth interviews with key informants, company documents and media reports. This research has both academic and practical implications. It contributes to entrepreneurship literature through providing in-depth examples of how private property developers overcome barriers to growth. It contributes to policy debate by illustrating the actual experience of Chinese entrepreneurs operating in this industry.

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Abbreviations

ACERE	Australian Centre for Entrepreneurship Research Exchange
ANZAM	Australian and New Zealand Academy of Management
CBD	central business district
CGC	Central Government of China
FFE	foreign-funded enterprise
GDP	gross domestic product
HR	human resources
HRM	human resources management
IC card	integrated circuit card
LCI	Local City Institute
MNCs	multinational corporations
NPC	National People's Congress
NPLs	non-performing loans
OLC	organisational life cycle
PLC	product life cycle
R&D	research & development
SMEs	small- to medium-sized enterprises
SOCBs	state-owned commercial banks
SOE	state-owned enterprise
TIT	Total Industry & Trade
USA	United States of America
WTO	World Trade Organisation (WTO)
XBI	Xiamen Branch Institute

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Chapter 1 Introduction

1.1 Introduction

The purpose of this research is to explore the survival and growth of China's private property-development enterprises. The central question of this research asks *what are the major barriers faced by China's private property-development enterprises and how do China's private property-development enterprises overcome these barriers?* The development of private enterprises, especially small to medium-sized enterprises (SMEs), is vital for a country's economic growth and employment creation (Morrison, Breen & Ali, 2003; Wu, Song & Zeng, 2008). In countries transitioning from a planned to a market-oriented economy, the development of the private sector is a significant component of the overall reform (Smallbone & Welter, 2001). China, as the largest transition economy in the world, has experienced this transition in terms of a dichotomy: although the private sector in China has developed at a rapid pace and become a major contributor to the country's overall economic growth (Qin, 2011), there is still a lack of necessary pillars to support the market activity found in developed capitalist economies. These missing pillars include well-established formal institutions, such as common law, specific bylaws and economic rules (North, 1990, p. 47), financial markets and property rights (Allen, Qian & Qian, 2005; Firth, Lin, Liu & Wong, 2009). This poses a question which is at the heart of the research presented in this thesis: how do private enterprises survive and grow in such a business environment?

This research investigates this question by studying the process by which China's enterprises in China's property-development industry overcome barriers to success. China's property-development industry provides a unique context to study this issue in both general and specific terms. In general, the commodification of land and therefore property-development enterprise is fundamental to the establishment of a market economy (Marx, 1991, p. 751ff; Deininger & Feder, 2009; Demsetz, 1967; Feder & Nishio, 1998). In the specific case of Chinese private property-development enterprises they are a direct result of China's economic reform, but nonetheless

government retains significant levels of control in this industry (Clarke & Howson, 1996; Fung, Huang, Liu & Shen, 2006; Zhu, 2012). This residual government control creates external barriers in the business environment. These include regulatory, land-access and financial barriers. There are also internal barriers within the property-development enterprises themselves, such as a lack of the managerial competency and proper management structure to cope with the complex business environment in the property-development industry. This research provides substantial details of three private property-development enterprises in a regional area and focuses on the process by which they used different strategies to overcome both external and internal barriers.

These narratives of the actual experience of how private enterprises overcome barriers to survival and growth contributes to enriching the broader research picture of the long-term growth of China's private sector and hence China's overall economic development. These narratives also shed light on the survival and development of private enterprises in a transition economy and represent a contribution to the understanding of entrepreneurial culture in this climate. In addition, the narratives also contribute to a better understanding of how Chinese enterprises operate. The actual experience of private property enterprises revealed in these narratives provides lessons for domestic businesspersons, Chinese policy-makers and international investors.

This chapter is organised as follows. Section 1.2 briefly discusses the context for this research. Section 1.3 identifies the research gap and addresses the significance of this current research. Section 1.4 highlights the two main research questions. Section 1.5 discusses the research methods. Section 1.6 concludes this chapter by providing the structure of the entire thesis.

1.2 Research context

The context for this research is the struggle for survival and growth of private enterprises in China's property-development industry. Two elements of the environment are of vital importance for framing this research: the increasing importance of private enterprises to China's economic growth; and the new property-development industry created by China's economic reform. Chapter 2 discusses the research context in more detail.

The general context is that China is transitioning from a planned to a market-oriented economy. During the past three decades, China has developed at an impressive growth rate and achieved unprecedented economic development. For example, since China's accession to the World Trade Organisation (WTO) in 2001, it has achieved an average annual economic growth rate of around 10.5 percent GDP (Wang, Li & Wang, 2013, p. 53). A major contributor to the rapid economic growth has been the private sector (Firth et al., 2009, p. 1154; McMillan & Naughton, 1992, p. 131). The transitional character of the Chinese economy means that it is likely that the business environment in China shares similarities with other transitional countries (Eunni & Manolova, 2012). Research found that, at least in the early years of transition, these countries lacked factors which normally underpin market-oriented economic action such as a property-rights-based legal framework (Peng & Heath, 1996, p. 504) and external financing in the form of bank loans (Wu et al., 2008).

Although this is an obvious point made by many commentators and indeed by policy-makers themselves, it is worth reiterating in the context of this study to establish the significance of the role of the private property-development industry in the transition to a market economy. China's private sector has been gradually liberalised and has developed rapidly after the introduction of the Open Door Policy (*kaifang zhengce*) since 1978 (Lai, 2006, p. 31). In the 2000s, the Central Government of China made efforts to further liberalise and promote the growth of China's private enterprises by implementing pro-business policies (McNally, Guo & Hu, 2007, p. 4). Although the business environment for the private sector has been improved as a result of these actions, the political and legal frameworks which typically underpin the development of businesses in market-oriented economies are incomplete (Choi, Lee & Kim, 1999; Hoskisson, Eden, Lau & Wright, 2000; Li & Zhang, 2007; Naughton, 1996). These deficits in political and legal frameworks in the business environment may still impede the development of China's private enterprises. Private property-development enterprises also face some specific barriers, such as a lack of an established land market through which to acquire land and the lack of an established financial market through which to obtain bank loans. Thus, private property-development enterprises are in a dichotomous situation, being simultaneously encouraged by economic reform and impeded by residual government control. This has significance for the general

transition to a market economy and, therefore, how they managed to overcome these barriers to business success is worth exploring as a case in point of the more general situation facing private enterprise development in China.

Existing literature suggests networking may be useful in overcoming some of these barriers arising from an unconducive business environment. For instance, research on the differences between Chinese business practices and those common in developed market economies has stressed that personal networks are very important for doing businesses in China (Ahlstrom, Bruton & Lui, 2000; Davies, Leung, Luk & Wong, 1995; Luo, 1997, 2007; Pearce & Robinson, 2000; Tsang, 1998). However, personal networks are not a unique phenomenon in China; they are basic to all societies. It is also likely that business behaviour in China is influenced by many of the same factors as business behaviour elsewhere. Therefore, the tendency of commentators to conclude that doing business in China is all about personal networks can provide only a partial description and explanation. Furthermore such generalisation, while it may be descriptive, lacks the analytical power required to understand what is really happening in particular enterprises as they face the difficulty of overcoming an unsupportive business environment. Even where personal networks are the method Chinese entrepreneurs use to overcome the barriers to growth, there are significant gaps in the research literature in regard to how enterprises actually use these personal networks and how Chinese entrepreneurs use other strategies to overcome barriers to success created by an undeveloped business environment.

1.3 Significance of the research

This research will contribute to filling this knowledge gap by delineating the process by which China's private property-development enterprises overcome barriers to success. This study will explore whether networking is an important contributing factor to addressing barriers in China's property-development industry. This research will also examine the exact barriers encountered by Chinese property developers. This research makes both international and China-specific contributions to literature, practice and policy-making. Internationally, researchers in the field of entrepreneurship have paid great attention to the factors contributing to successful business start-ups, personal traits of entrepreneurs and different types of entrepreneurs (Gartner, 2010). Less

research is available in terms of depicting and analysing the process of “engaging with, and responding to” the enterprise’s circumstances in establishing and maintaining the business (Gartner, 2010, p. 10). This research contributes to an understanding of the process of how private enterprises attempt to overcome barriers to their success, by focusing on the business strategies employed by enterprises in China’s property-development industry. These are uncovered through detailed investigation of selected Chinese private property-development enterprises. As mentioned earlier, research into Chinese businesses has emphasised the importance of personal networks in obtaining resources and information, but there is a lack of detail depicting how different types of personal networks and the processes by which they operate contribute to overcoming the barriers to success. This research makes an original contribution by providing detailed case narratives showing how personal networks assisted these enterprises to overcome the barriers in China’s property-development industry.

This research is useful for practitioners in the property-development industry, Chinese government and observers of China’s transition as well as foreign investors. Practitioners may learn from the three case enterprises’ experience, in terms of what worked and what did not work. From the cases, government officials may learn what policies could promote the development of private enterprises in this industry. Observers of China’s transition and foreign investors may learn more about China’s transition from the perspective of the real business operations of Chinese enterprises and the difficulties faced by entrepreneurs in enacting the day-to-day details of market transition. These points are more fully explained in the discussion of findings in Chapter 7.

1.4 Research questions

The thesis aims to identify the major barriers to business success faced by China’s private property-development enterprises, and to delineate the strategies used by China’s private property-development enterprises to overcome these barriers. This central research question is broken down into a number of subsidiary questions, including:

- Did the three case enterprises meet the same barriers and use the same strategies to overcome them?
- If there are differences, how are the barriers and strategies different in each case enterprise?
- How did these enterprises implement these strategies?
- Are these barriers and strategies the same as those identified in the existing literature on barriers to business success?

1.5 Research methods

This research uses a qualitative multi-case research methodology (Creswell, 2007; Denzin & Lincoln, 2005b; Merriam, 2009) employing narrative inquiry methods (Wells, 2011) to investigate the processes by which three Chinese private property-development enterprises overcame the barriers to success created by the lack of a developed market-economy environment. The three case enterprises were chosen for detailed study on the basis of opportunity: the key informants in these enterprises guaranteed access to the researcher. This created the possibility of a candid and full insight into how these enterprises actually operated. An additional advantage was that because they operated in the same municipality in east China, they faced the same external social and economic environmental factors. Two of the enterprises were entrepreneurial start-ups, with pseudonyms of Yang's Property and Wisdom Property. The third enterprise was a privatised former government enterprise with the pseudonym of East Property.

1.5.1 Case selection and preliminary informal interviews

Convenience to data access was the major consideration when selecting case enterprises (Yin, 2009, p. 26). This research required substantial details of the enterprises' business operations. For the research to succeed the researcher had to establish a high level of trust with the key informants in the case enterprises. The researcher's personal background in the city and in the industry were significant in establishing this trust. Informal personal conversations prior to the fieldwork contributed to building trust between the researcher and the potential informants and confirmed that the latter would be prepared to talk reasonably openly to me as a researcher. The details of this relationship are further explained in Chapter 3.

Other than having sufficient access to the case enterprises, the three case enterprises provided examples of the two different types of private enterprise in China: entrepreneurial start-ups, and privatised enterprises established from former state-owned enterprises (SOEs). This variation provided the opportunity to investigate the barriers faced by different types of private enterprises and the strategies they used to overcome these barriers.

Locating the three case enterprises in the same industry and in the same municipality meant that they faced a similar external business environment, such as the same local government and same rules and regulations. This same external business environment reduced the number of variables and eliminated the impacts the policy differences had on the responses of enterprises. This contributed to the understanding of similarities and differences of strategies taken by these selected enterprises in the same external business environment. Financial and time constraints of doctoral research also contributed to the case selection. Selecting three enterprises from the same municipality was both time and cost effective.

1.5.2 Fieldwork

While the details of the methodology provided in Chapter 3 cover questions of how data was collected, a brief account is offered here to provide a general overview of how the case narratives underpinning the thesis were developed.

After initial personal conversations with some key informants, I undertook two field trips of four and five weeks, during June to July 2011 and during February to March 2012. During these two field trips, I conducted a total of 35 in-depth interviews with an average duration of 1.5 to 2.5 hours. Each interviewee was carefully targeted because of their detailed personal knowledge and experience of the operation of one of the case enterprises.

After obtaining approval from UNSW@ADFA Human Research Ethics Advisory Panel, I formally started in-depth interviews with key informants from the three case enterprises. The three entrepreneurs from the case enterprises and my initial contact were first identified as the key informants for this research, because they were the “key actors or key insiders” (Bailey, 2007, p. 69). Prior to these interviews, I collected public

information, such as company and project information, from company websites and other public sources. This helped to build up knowledge of the subject matter and thus be more informed and engaged in the interviews with the entrepreneurs. During interviews, these entrepreneurs also assisted me by suggesting other informants and helping me obtain access to them. In line with Bailey (2007, p. 70), this highlights the role that key actors can play, including where they “helped the researcher gain entrée, establish rapport, provide explanations, and perform a host of other tasks”.

I relied heavily on written notes to keep records of interviews. During interviews, I took notes of key phrases and information. Immediately after the interviews, I wrote extensive notes by linking the key phrases and other information from the notes of the interviews. This approach was chosen rather than tape-recording and transcription because in China most research dealing with social and political issues is regarded as sensitive and interviewees are uncomfortable and less forthcoming when recording is undertaken (Heimer & Thøgersen, 2006, p. 263). Conducting interviews for research purposes without tape-recording may be helpful in allaying fears when investigating a sensitive topic (Heimer & Thøgersen, 2006, p. 35). After the field trips, some informants were contacted through phone calls to collect further information missing from the previous interviews and/or to clarify certain issues.

1.6 Structure of the thesis

This research has eight chapters. Chapter 1 introduces this current research and provides an overview of the entire thesis. It discusses the rationale and significance of this current research, highlights the main research questions and briefly addresses the research methods used.

Chapter 2 reviews two sets of existing research literature: one on the development of China’s private sector and the other on China’s property-development industry. Based on the findings of this research, Chapter 2 identifies the barriers China’s private property developers are likely to meet and possible strategies used by them to overcome these barriers. It also suggests the use of a particular framework for analysis that has been developed by researchers in the area of small business growth.

Chapter 3 sets out the research design and methodology. This chapter focuses on the process of collecting data, including case and informant selection and the in-depth interviews in the fieldwork. It also addresses the data analysis methods.

Chapters 4, 5 and 6 present the three case narratives. The three case narratives address the specific barriers the three case enterprises met in each property-development project they had undertaken up to and including the research period and the processes by which they overcame these barriers. The case narratives also draw on company development and some history of the entrepreneurs' personal development, as their individual development experience may affect the way they overcome the barriers.

Chapter 7 analyses the cases. It compares the expected barriers drawn from existing literature in Chapter 2 and the actual barriers as presented in Chapters 4 to 6. Chapter 7 also provides interpretation of the results of this research.

The last chapter, Chapter 8, concludes the research and summarises the findings. Furthermore, it discusses the implications and contributions of the research.

Chapter 2 Background for the development of China's private property-development enterprises

2.1 Introduction

The general problem that this research is concerned with is the survival and development of private enterprises. In particular, this research looks at how private enterprises survive and develop in China's property-development industry. As Kiong and Kee (1998, p. 75) note in the research on trust and Chinese business networks, economic decisions are "embedded in the context of larger social relations and institutional forces" rather than being based solely on market considerations. Therefore, it is important to understand the context when studying the enterprises' economic decisions. Following this logic, the purpose of this chapter is to investigate what is already known about the specific context of the development of private property-development enterprises in China. While there are various ways to approach this issue, this study organises the inquiry around two intersecting sets of considerations: one deals with the development of the private sector in the Chinese economy; and the other deals with the nature of the property-development industry.

It is well established in international research that business environment is significant for the growth and development of enterprises, especially private enterprises (Batra, Kaufmann & Stone, 2003; Eifert, Gelb & Ramachandran, 2005; World Bank, 2004). There is an extensive general literature on the development of private enterprises in transition economies dealing with economic reform in countries moving from central planning towards a market economy (Aidis, 2005; Ericson, 1991; Fogel, 2001; Kornai, 1992; Peng & Heath, 1996). Overall, market transition is complex and there are different ways to undertake it. On the one hand, because economic reforms result in greater variations in economic factors, such as prices and production decisions, the imbalances in these economic matters inherited from the planned economy may create opportunities for the entrepreneurs (McMillan & Woodruff, 2002). On the other hand, this transition economy environment may also lead to impediments to the entry of new enterprises and their development because of the continued influence of aspects of central planning. Drawing from existing literature, transition economies are characterised by the following features: the lack of necessary institutional support for a

market economy, including a lack of well-defined property rights-based legal framework (Bartlett & Bukvič, 2001; Clarke, 1991; Johnson, McMillan & Woodruff, 2002; McMillan & Woodruff, 2002, p. 155; North, 1990; Peng & Heath, 1996); an underdeveloped financial market (Fogel, 2001; Gros & Suhrcke, 2000); over-regulation, interference and corruption in market activities which especially impact private enterprises (Aidis, 2005); and limited managerial and technical expertise (Bartlett & Bukvič, 2001; Pissarides, 1999, p. 519).

Although transition economies present similarities in terms of the general business environment, it is difficult to identify one universal trend in the development of private enterprises among these countries, because they include all sorts of national differences. Although much has been written about transition economies, the particular issue that is significant to this current research is, how private enterprises survive and develop under the general economic and political circumstances in one particular city in China.

This chapter first addresses the definition of business success. It then discusses two sets of considerations: the development of China's private sector in Section 2.3; and China's property-development industry in Section 2.4. Section 2.3 addresses the major strategies China's private enterprises have used to overcome barriers arising from the general business environment of economic transition. Section 2.4 discusses the particular barriers facing China's property-development enterprises and their major strategies identified from the existing literature. Section 2.5 discusses the research framework for analysing the case narratives.

2.2 Defining success in a business context

The thesis aims to identify the major barriers to business success faced by China's private property-development enterprises, and to delineate the strategies used by these enterprises to overcome the barriers. Before embarking on discussing the research, it is vital to define business success in this research. There is no single agreed-upon definition of business success and defining business success is a "multifaceted task" (Kiviluoto, 2013, p. 572). Rogoff, Lee and Suh (2004, p. 365), in the research into factors causing and impeding small business success, provide a similar view and note that existing academic research generally uses "continued viability or longevity" as a

surrogate for business success. This research does not define business success in property-development industry, because business success is related to individual enterprise. Business success, or “continued viability or longevity” is the same to enterprises in all industries and may not be industry-specific

In the field of entrepreneurship, academic researchers use firm growth as a primary evidence for business success (Ensley, Pearson & Amason, 2002; Kiviluoto, 2013; Steffens, Davidsson & Fitzsimmons, 2009; Wright & Stigliani, 2013). Firm growth, especially sales growth is perceived as an importance measure of success because of the positive relationship between growth and profit (Kiviluoto, 2013). In the research into growth as evidence of firm success, Kiviluoto (2013, p.570) provides the “success lists” as a practical example. The success lists published all over the world rank firms on achieved growth (Kiviluoto, 2011, 2013). Some researchers, on the contrary, note firm growth may not be a sign of sound development and it is not a holistic measure of business success (Davidsson, Steffens & Fitzsimmons, 2009; Steffens et al., 2009).

This research does not attempt to justify whether firm growth is a valid measure of business success nor identify other possible measurements of business success. Rather, this research follows the commonly used definition of business success as discussed above, and defines business success as continued viability or longevity, and growth. Following this definition, this research uses “success” and “survival and growth” interchangeably, and all the three case enterprises reached business success. This research focuses on describing and explaining how the case enterprises overcome the barriers to business success. The following two sections aim at discussing the context for this research from two aspects: China’s private sector and the property-development industry.

2.3 The development of China’s private sector

China is the largest country transitioning from a planned economy to a market-oriented economy. There is an extensive body of literature on China’s transition process (Goldstein 1995; Hart-Landsberg & Burkett 2005; Naughton 1999; Qian 1999; Story 2010; Sweetman & Zhang 2009; Walder 1995). Various researchers view China’s transition process from different angles. However, most agree that China’s transition has the following characteristics: the lack of a well-defined model, or as Deng

Xiaoping expressed it when he proposed the strategy as “crossing the river by touching stones” (Perkins, 1994; Qian, 1999, p. 6); government retaining significant control; economic reforms following a dual-track approach, an approach which is “based on the continued enforcement of the existing plan while simultaneously liberalising the market” (Lau, Qian & Roland, 2000, p. 120); and having regional variation.

By the 1990s, the consensus among researchers was that China’s reforms had been successful (McMillan & Naughton, 1992; Naughton, 1996). McMillan and Naughton (1992, p. 131) point out that there were three major contributors to the success of economic reform in this period. These were: 1) the massive entry of non-state enterprises into different industries in China’s market; 2) a dramatic increase in competition among SOEs and between SOEs and non-state enterprises; and 3) the improvement of SOEs resulting from the “state-imposed market-like incentives”. Although China’s economic development and growth have far-reaching impacts both internationally and domestically, this huge emerging market economy has become intertwined with the command economy (Wank, 1995, p. 67). In Wank’s view, the clearest example is the two-tier price system: under this system, some commodities had two prices, a lower state-set price and a higher market price (1995, p.67).

2.3.1 The development and importance of China’s private sector

One important contributing factor to China’s reforms has been the massive entry of non-state enterprises into the market economy (McMillan & Naughton, 1992, p.460; Yueh, 2009, p. 784). Following Garnaut, Song, Yao and Wang's (2012, p. 8) definition, this research defines China’s private sector as enterprises under the control of private domestic entrepreneurs. This definition distinguishes China’s private sector from SOEs and collective-owned enterprises.

In China, private enterprises have developed at a rapid pace (Firth et al., 2009). Ahlstrom, Bruton, and Lui (2000), in their study of China’s private enterprises in the changing economy, note that China’s economic growth relies heavily on the development of private enterprises. This question of the significance of the development of China’s private enterprises has been analysed by McMillan and Woodruff (2002). They note that in China, new firms are the drivers of economic

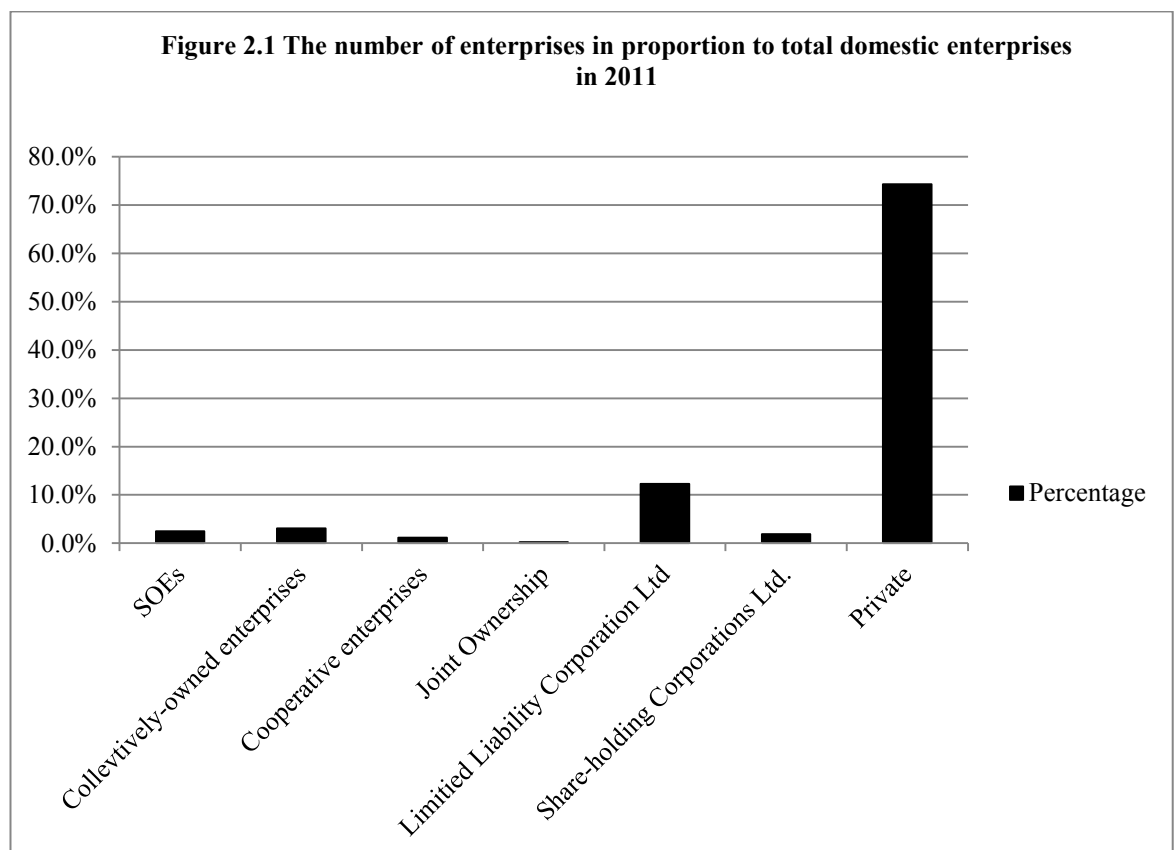
reform and that the role of entrepreneurs is central to the success of transition economies (McMillan & Woodruff 2002, p.153). In McMillan and Woodruff's (2002, p.153) view, this is because these new enterprises are crucial in aspects such as creating jobs, supplying customer demand for goods, mobilising savings and ending the SOEs' monopoly. They therefore conclude that these new enterprises were, at the time of their research, and will continue to be, vital to the success of the policy objective of strengthening the budding market economy in China.

Regulation of China's non-state sector, including non-state-owned companies and partnerships, was gradually introduced from 1978 (Lai, 2006; Li, Meng & Zhang, 2006). This allowed enterprises with collective, private, foreign and hybrid ownership to enter markets, sometimes as competitors with SOEs (Lai, 2006, p. 31). The Open Door Policy (*kaifang zhengce*) was also introduced, and this policy provided Chinese enterprises with the opportunity to gradually open to the world economy (Lai, 2006, p. 31).

In the 2000s, the importance of private enterprises increased further, as state policies made specific efforts to promote the growth of private enterprises. First, former State President Jiang Zemin stated that qualified private entrepreneurs could be recruited into the Communist Party as members, and this legitimated the political representation of private entrepreneurs. Second, the *Law on Encouraging Small-and-Medium-Sized Enterprises (SME)* was passed by the National People's Congress (NPC) in June 2002 (Lai, 2006, pp. 41–42). This law focused on facilitating the growth of private enterprises with assistance in areas such as finance, start-up support, and taxation. At a local level, where private enterprises conduct their business, local governments have been an avenue for this sort of support. As they have become more reliant on revenues earned from the private economy, they have had a vested interest in its growth and the relationship between local government and entrepreneurs has been strengthened (Nee, 1992).

This significance of private enterprises is reflected in official data. According to the Annual Report of the Non-State-Owned Economy in China 2005 to 2006, published by the All-China Federation of Industry and Commerce, also known as the All-China General Chamber of Industry and Commerce (All-China Federation of Industry and Commerce, n.d.), private enterprises contributed 65 percent of GDP, 70

percent of local tax income, 77.8 percent of imports and exports in China, and provided more than 84.1 percent of the jobs in secondary industry (including mining, manufacturing, utility and construction industry) and tertiary industry (service industry). As shown in Figure 2.1, by 2011, the number of private enterprises excluding collective-owned, cooperative, joint-ownership, limited-liability and shareholding enterprises, had reached 4,683,900, and represented 74.34 percent of China's total domestic enterprises (National Bureau of Statistics of China, 2011).



2.3.2 The business environment facing China's private enterprise

Despite China's transition process and successful results, its business environment may be far from ideal for enterprises because of the continued dominance of government in the economic life of the country. So the question of how China's private enterprises survive and develop under such circumstances remains a puzzle. This is what this current research set out to investigate.

For private enterprises in China, this period of transition has created an especially complex business environment which poses specific challenges for their development.

In a developed market economy, formal rules are incorporated in company and contract law to govern economic exchange; and informal rules, including social norms and codes of conduct, provide broader signposts for individuals (Child & Tsai, 2005; Tan, Yang & Veliyath, 2009). Therefore, both the formal and informal rules lead to steady-state equilibrium of institutional frameworks in most mature market economies (Tan et al., 2009, p. 546).

By contrast, China is in transition from a planned economy to a market economy. Unlike a developed market economy, where institutional frameworks are well established to guide and regulate individual firms' behaviour (Tan et al., 2009, p. 546), in China both formal and informal institutional rules are changing, and often very rapidly (Tan, 2007; Tan et al., 2009, p. 546). The general point made by many researchers is that because of the transitional characteristics of the Chinese economy, the political and legal frameworks, which underpin the development of businesses in market-oriented economies, are lacking (Choi et al., 1999; Hoskisson et al., 2000; Li & Zhang, 2007; Naughton, 1996). In particular, enterprises may face the barriers of lack of a law of contract, weak property rights and underdeveloped capital markets (McMillan & Naughton, 1992). China also has the general characteristics of transition economies, such as poor infrastructure in many places, lack of reliable market data, weak distribution systems, poor communication, a lack of regulatory discipline, changing regulations and a high risk of counterfeiting (Story, 2010, p. xv).

Tan et al. (2009) observe that China's economy has increasingly adopted market-based characteristics with state policy diminishing the role of government in economic transactions, and encouraging the rapid increase in the number of private firms, collectively owned firms, and multinational joint ventures. However, although some discriminatory policies have been removed in China's opening up process, international commentators have found that China's enterprises face constraints on development, including policy uncertainty, overregulation, and a weak financial sector (Batra et al., 2003; Choi, 2009; Haggard & Huang, 2008; Yu, Zhou, Wang & Xi, 2013). Purely private enterprises are also still at a disadvantage in areas such as obtaining state-controlled resources (Peng & Shekshnia, 2001). Given the business environment in China, entrepreneurial opportunities and performance are affected by market imperfection in the macro-economic environment (Cohen & Winn, 2007; Tan et al.,

2009), which may give rise to additional barriers for private enterprises seeking to get established. Tan and Litsschert (1994, p. 12) demonstrate the complexity of China's business environment by using the example of managers in its electronics industry, who perceived that China's business environment, at the current level of regulation, as a consequence of economic reform and open-door policies, is becoming more and more complex. While it is a transition to a better economic environment for private enterprises, change of itself, and especially rapid change, creates complexity. Chinese entrepreneurs need to deal with this on a daily basis if they are to survive.

It is therefore not surprising that researchers note that the government policies in China are far from ideal for the development of private enterprises (Brandt & Li, 2003; Choi, 2009; Haggard & Huang, 2008). *The Index of Economic Freedom* is an important guide used by the international investment community to assess doing business in particular countries. China's business environment ranks 136 out of 185 countries in the *2013 Index of Economic Freedom*¹ (Miller, Holmes & Feulner, 2013).



Source: Heritage Foundation (2013).

From Figure 2.2, it can be seen that China's overall economic freedom scores have been rated between 50 to 60 from 1995 to 2013, which means that China was

¹ *Index of Economic Freedom* is an annual guide published by the *Wall Street Journal* and the Heritage Foundation since 1995. The index covers 10 freedoms – from property rights to entrepreneurship – in 185 countries. The 10 economic freedoms are categorised into four pillars of economic reform: rule of law, limited government, regulatory efficiency and open markets (Heritage Foundation, 2013).

classified as one of the “mostly unfree” countries. In the *2010 Index of Economic Freedom*, Miller and Kim (2010) explain China’s low ranking. Miller and Kim (2010) note that, in an economically free society, people can succeed or fail based on their own ability and effort. Conversely, state action or control interferes with individual autonomy and limits economic freedom. In China, economic freedom is still affected by the dominance of the Communist Party, with tight control of the financial sector and direct or indirect government ownership of all banks (Miller & Holmes, 2010).

This situation means that relations with government are enormously significant for enterprises in China. Furthermore, Story (2010, p. 52) argues that “China’s government is complex and opaque” with overlapping responsibilities for different levels of government. The state is simultaneously a customer for many enterprises, and an investor in infrastructure, while the government procurement market is huge in China. In addition, the state has significant direct influence on markets, especially when it introduces reform packages that change the rules under which markets can operate (Story, 2010, p. 52). Haley’s (2003, p. 242) research into assessment and control of business risks in China shows that, at the macroeconomic level, multinational corporations (MNCs) in China face regulatory risk because of the uncertainty of China’s governmental policies.

Zhuang, Ritchie and Zhang’s (1998) research into foreign funded enterprises (FfEs) in China provides evidence of additional political risk in China. Zhuang et al. (1998) argue that politics is the most serious source of risk. They define political risk as “changes in the political decision-making in the host country”, and the effect of this is “intervention” (Zhuang et al., 1998, p. 611). They suggest that although businesses are likely to be exposed to political risk in every country, the political risk tends to be more serious in China. Zhuang et al. (1998, p. 612) use Microsoft Corporation as an example. In September 1996, the Microsoft Corporation was banned from selling its Windows 95 (simplified Chinese character version) in China. This was because the software was found to contain such phrases as “communist evils”, and this kind of phrase was not acceptable to the Chinese government.

The above-mentioned barriers are general barriers faced by almost all private enterprises in China. When facing these general barriers found in transitional

economies, private enterprises may take different strategies to circumvent them. The following section identifies the common strategies used by enterprises.

2.3.3 Main strategies used by Chinese enterprises in overcoming barriers arising from China's general economic environment

Drawing from existing literature, this section discusses the major strategies to overcome barriers used by China's private enterprises. This section does not provide a full list of all possible strategies, but focuses on the most commonly identified themes. These key themes include networking, political connections, trust and reputation, and personal traits, which are discussed separately.

Networking

Interpersonal networking is a common strategy assisting Chinese enterprises to overcome institutional barriers (Gu, Hung & Tse, 2008). Some commentators argue that it is used as a substitute for formal institutional support when there is a lack of established rule of law (Xin & Pearce, 1996). Entrepreneurs can access valuable resources and achieve competitive advantages through networking activities (Zhao & Aram, 1995, p. 349). Much has been written on the role of social capital and social networks in entrepreneurial activity (Bourdieu, 1986; Coleman, 1988; Putnam, Leonardi & Nanetti 1994; Wall, Ferrazzi & Schryer, 1998). In China, networking is particularly significant for the reason that it is embedded in China's national culture (Chang & Holt, 1991; Hwang, 1987; Park & Luo, 2001; Tan et al., 2009). Existing literature in terms of China focuses on the general development process as well as the importance of business networks (Chang & Holt, 1991; Chen & Chen, 2004; Jacobs, 1979; Kiong & Kee, 1998; Taormina & Gao, 2010), and the relationship between business networks and financial performance (Batjargal, 2007; Park & Luo, 2001).

The research literature also indicates that there are several major ways to build networks, including building through family members (Lubatkin, Schulze, Ling & Dino, 2005; Taormina & Gao, 2010, p. 3), building through friends (Jacobs, 1979; Taormina & Gao, 2010, p. 3), building through intermediaries (Chang & Holt, 1991, p. 260), and building through interactions (Chang & Holt, 1991, p. 261). Based on a study of Chinese business firms in Singapore and Malaysia, Kiong and Kee (1998) argue that the

maintenance of close networks heavily depends on continual social interaction. Kiong and Kee (1998, pp. 81–82) summarise the techniques to ensure continual social interaction as follows. First, social visits, dinner invitations and gift giving can smooth the process of continual social interaction. Second, adding more basis for networking could ensure continual social interaction, which can also “increase the feeling of commonality between parties”, and facilitate the development of trust (1998, p. 81). Third, mutual rendering of help can contribute to the maintenance of networks. Fourth, the ongoing demonstration of reliability and trustworthiness is likely to affect the maintenance of networks.

Trust and reputation

The obvious significance of networks in China has led many commentators to assume that by using the Chinese term, *guanxi*, they have explained the impact of networks on Chinese business. This leads to networks and trust being used interchangeably in much of the literature when discussing the business practices of China’s private enterprises (Qin, 2011; Wank, 1996; Xin & Pearce, 1996). This research deals with trust as a separate theme. This is because trust is best understood as an outcome of networks rather than as the same thing. Trust is seen in this research as embedded in networks, and good personal networks as fostering and entailing the development of trust (Kiong & Kee, 1998; Shou, Zhang & Su, 2011). Thus networks and trust are “causally linked” with the improvement in one leading to the increased quality of the other (Kiong & Kee, 1998, p. 85). Trust is significant in lowering risk and uncertainty (Höhmman & Malieva, 2005; Welter & Smallbone, 2006) and provides a foundation for cooperation (Qin, 2011). In China, owing to the lack of institutions that can be trusted to support market activity, enterprises tend to rely on personal trust (Kiong & Kee, 1998; Tan et al., 2009).

In this research, trust is seen in turn as producing reputation, which is essential to entrepreneurial success. This accords with existing research, which finds that reputation is a valuable intangible asset providing firms with sustainable competitive advantages (Barney, 1991; Hall, 1992). Powell (1990, p. 326) notes that when repeated trading occurs, quality is more important and “the reputation of a participant is the most visible signal of their reliability”. Reputation can also have impacts on stakeholders’ choice of the organisation they will deal with (Benjamin & Podolny, 1999; Deephouse, 2000;

Rindova, Williamson, Petkova & Sever, 2005). For instance, stakeholders are likely to prefer prominent organisations which can provide assurance to buyers and other stakeholders (Kuran & Sunstein, 1999; Rindova et al., 2005, p. 1039). In addition, reputation is crucial in reducing stakeholder uncertainty (Benjamin & Podolny, 1999; Rindova et al., 2005). A favourable organisational reputation is usually associated with economic benefits (Rindova et al., 2005).

The *guanxi* equation therefore is not simply “networks = success”, but more like networks lead to trust which facilitates the building of reputation, and it is reputation which makes success sustainable.

Political connections

Drawing from different theoretical perspectives, such as the institution-based view, resource-based view and social capital theory, political connections are defined as “firms’ ties with either central or local government” and these political connections are “based on having personal ties with members of political party and of the state” (Shi, Markoczy & Stan, 2014, p. 58). Scholars have different views of the impacts political connections have on Chinese enterprises. On one hand, some scholars argue that with the establishment and improvement of China’s legal and regulatory system, the value of political connections diminishes (Nee, 1989) and local businesses could obtain critical resources from non-government organisations, such as business networks, more easily than before (Keister, 2009). On the other hand, by using a “more fact-based and inductive approach” (Shi et al., 2014, p. 59), scholars note that, given the importance of interactions between business owners and state officials (Rittenberg, 2005), political connections play a significant role in transition economies (Dinç, 2005; Faccio, 2006; Siegel, 2007), including China (Shi et al., 2014; Zhou, 2013). Zhou (2013, p. 302), in the study of 1,946 entrepreneurial firms in China in the mid-1990s, concludes that entrepreneurs in transition economies can benefit from political connections in the following ways: 1) easier access to key resources and opportunities; and 2) better property rights protection.

Therefore, given the significant role of political connections in transition economies and in China’s other industries, it is likely that China’s private property developers use political connections to address the difficulties they face.

Role of corruption

The use of personal networking and political connections may be considered corruption by some academic researchers, however, this research will not make normative judgement for the following two reasons. First, the purpose of this research is to describe and explain the business behaviours of Chinese private enterprises in overcoming barriers in the context of China's property-development industry, rather than to judge whether their behaviours are corrupt or not. Second, national cultures significantly affect perspectives on corruption and no universal standards are reached among countries. Scholars in different fields agree that societal cultures have impacts on a variety of social phenomena (Seleim & Bontis, 2009; Hofstede, 1983; House, Javidan, Hanges & Dorfman, 2002). In particular, Vitell, Nwachukwu and Barnes (1993) note that cultural dimensions tend to influence individual's perception of ethical situations, therefore, cultural differences are expected to influence corruption (Seleim & Bontis, 2009).

Other academic researchers contribute similar perception that cultures affect individuals' perspectives of corruption. High- and low-context cultures have different foci (Allen, O'Mara & Long, 2014; Shafer & Wang, 2010). For instance, Allen et al. (2014, p. 73) note that collectivistic cultures take precedence of groups and value quietness and less talkativeness. Hooker (2009) in the discussion of corruption from a cross-cultural perspective culture, notes that the Western cultures tend to be rule-based, and other cultures may be relationship-based. Armed with these two cultures, Hooker (2009, pp.252–253) concludes that “what is corrupt in the West may be acceptable elsewhere” and “what is acceptable in the West may be corrupt elsewhere”. In reality, different cultures use radically different systems to get thing done (Hooker, 2009). Following this logic, this research focuses on describing and explaining how Chinese private enterprises overcome barriers to success, rather than judging their behaviours.

Personal traits

The last theme linked with strategies used by Chinese entrepreneurs is personal traits. In the field of entrepreneurship, one approach to locating factors crucial to the success of enterprises focuses on “the person”, an entrepreneur's psychological and

behavioural characteristics (Begley & Boyd, 1987; Gartner, 1985; Kirzner, 1983; Liao & Welsch, 2005; McClelland, 1961; Miller & Friesen, 1982). Tan brings the two together in his review of the literature through a dual focus on micro and macro enabling factors (1996, p. 32). The micro view mainly examines entrepreneurs' personal traits that are specifically related to entrepreneurship. This micro view is grounded in the belief that entrepreneurs' specific personal traits are a major contributor to their business success. Much of this sort of commentary is based on the assumption that if these personal characteristics are identified and copied, it would increase the possibilities of success for emulators. Therefore, existing literature identifies personal traits and behavioural orientations that are common among successful entrepreneurs. Research following this approach has found some common characteristics of successful entrepreneurs, such as high propensity to take risk (Gartner, 1985; Kirzner, 1983; McClelland, 1961), pro-activeness, innovation, and opportunistic orientation (Begley & Boyd, 1987; Miller & Friesen, 1982; Tan, 1996).

The research in this thesis does not focus on the personal traits as a particular factor for the development of China's private enterprises. However, personal traits is a crucial theme emerging from the existing entrepreneurship research and it is therefore likely that entrepreneurs in these three selected case enterprises have some similar characteristics to successful entrepreneurs in other industries or countries. For this reason the backgrounds and development of each of the case narrative entrepreneurs is considered in some detail.

This section discussed the general business environment facing almost all China's private enterprises and addressed the common strategies used by these enterprises. In addition to the general business environment, there are industry-specific characteristics leading to specific barriers faced by private enterprises in the property-development industry. As mentioned earlier, networking, trust and reputation, political connections, and the development of personal traits conducive to entrepreneurial action are important strategies being used by Chinese enterprises to address issues arising from business operations in this transitional economic environment. Given that they are also subject to these factors, it is likely that China's private property developers have used similar strategies when facing barriers.

This brings us to the second part of this chapter, which explores the emergence and characteristics of the property-development industry in China and the specific issues faced and strategies used by entrepreneurs in this industry.

2.4 Property-development industry

This research uses China's private property-development enterprises as an example to investigate the barriers met by private-sector enterprises and the strategies they used to overcome them. There are three reasons for choosing this particular example. First, the property-development industry plays an increasingly significant role in China's economic development and its transition from the planned economy to a market-oriented economy. For example, Fung et al. (2006, p. 84) note that in Shanghai, in 1990, real-estate output accounted for 0.5 percent of its gross domestic product (GDP), and this figure increased to 7.4 percent in 2003. Li (2013, p. 4) reports that property investment increased from RMB 498 billion in 2000 to RMB 3.6 trillion in 2009, suggesting China's property market was rapidly expanding. In terms of China's transition from planned economy to a market-oriented economy, property development is playing an important role in the commodification of land essential to a market economy. Second, the emerging private enterprises are seen in general to contribute more and more to the economic growth of China, so detailed study of particular examples may illuminate how this actually works in practice. Third, private property-development enterprises may be exposed to more barriers than SOEs involved in property development in China, because they do not have the same privileges as SOEs in obtaining state-owned resources, such as land and finance, which are fundamental for this industry.

In recent years, China's property-development industry has received much attention because of China's booming housing market and the thirst for knowledge from potential investors and owners (Huang & Boateng, 2013, p. 847). However, property development is a complex process (Zhang, Shen, Wu & Fan, 2009, p. 235). Despite policy settings, which support the spread of market-oriented activity, China's private property-development enterprises meet both general and particular barriers arising from the Chinese business and regulatory environment (Chen, Firth, Gao & Rui, 2006;

D'Arcy & Keogh, 2002; Haggard & Huang, 2008; Hagigi & Sivakumar, 2009; Lou, 2007).

This section starts with an overview of property-development industry in general, followed by the development of this industry in China and then discusses the particular barriers China's private property developers may meet. It is worth noting that the discussion of property-development industry in general is not to be compared with the industry in China. Instead, the discussion of the industry in general is to contextualise the development of China's property-development industry in a broader international background.

2.4.1 Property-development industry in general

There is no universally agreed definition for property development and it can evoke different feelings depending on any particular viewpoint (Cadman & Topping, 1995). For example, Cadman and Topping (1995, p. 1) define property development as "a process that involves changing or intensifying the use of land to provide buildings for occupation". Although the definition of property development remains simple (Miles, Berens & Weiss, 2000, p. 4), academic researchers reached consensus that property development is an increasingly complex activity involving multiple stages (Cadman & Topping, 1995; Cadman, Wilkinson & Reed, 2008; Miles et al., 2000; Peiser & Frej, 2003).

Academic researchers provide different classifications for the main stages of property development. For instance, Cadman and Topping note the process include initiation, evaluation, acquisition, design and costing, permission, commitment, implementation, and let/ manage/ disposal. Miles and his colleagues (2000, p. 6) classify the process into eight stages, including inception of an idea, refinement of the idea, feasibility, contract negotiation, formal commitment, construction, completion and formal opening and property, asset and portfolio management. Collier, Collier and Halperin (2002) provide more detailed stages following similar process. Although different classifications exist, they indicate the high complexity of property development. From these classifications, it is also worth noting that property development distinguishes from construction, because construction is only one stage of the property-development process (Peiser & Frej, 2003, p. 3).

Linked with the various stages of property development, the development process involves a variety of important actors in each stage. These important actors include landowners, developers, public sector and government agencies, planners, financial institutions, building contractors, agents, professional team, objectors and occupiers (Cadman & Topping, 1995, pp. 10–25). Miles and his colleagues (2000), as well as Peiser and Frej (2003) identify similar actors in the industry. Nevertheless, the importance of these actors varies from project to project and maybe only a few of them appear in a single property-development project (Cadman & Topping, 1995).

Despite these features of property development itself, the economic context significantly affects the industry. Cadman and Topping (1995, p.25) note that economic context affect property development in both specific and general ways. Specifically, the local economy helps to determine the market for an individual project, and generally, the wider economy influences the property market conditions and confidence of occupiers and investors. Given the importance of the economic context to property development, the following section looks at how China's property-development industry grew under China's transitional economic context.

2.4.2 Development of China's property-development industry

The development of China's property-development industry has been discussed by both Chinese and international researchers (Fung et al., 2006; Fung, Jeng & Liu, 2010; He, Wang & Cheng, 2011; Man, Zheng, & Ren, 2011; Ye, Wu & Wu, 2006). Different researchers have classified the development of China's property-development industry into different stages. My approach in this section is not to emphasise the different ways of classifying the development of this industry, but to provide an overview of this industry, while highlighting some influential policies implemented during its development which impact on how business is conducted in it.

Fung et al.'s (2006) research on the development of the real estate industry in China provides a useful review of its development. Using changes in regulations governing private ownership, Fung et al. (2006, p. 85) divide the development of China's real estate industry into three stages: 1978 to early 1987; late 1987 to 1991; and 1992 onward. Table 2.1 adapts this analysis and presents the three stages, their

corresponding time periods and the key characteristics of China's property-development industry during the three stages.

Table 2.1 Stages of development of China's property-development industry

Stage	Time period	Key characteristics of the industry
1	1978-early 1987	Chinese government started to realise the problem with old housing and land use system.
2	late 1987-1991	The marketisation process of the real estate industry was formally initiated.
3	1992 onward	Market-oriented development. China's real estate industry has experienced dramatic changes.

First stage: 1978 to early 1987

During this stage, regulators in China began to realise that problems with the old housing and land use system were intractable (Fung et al., 2006, p. 85). Before the economic reforms starting from 1978, China's economy was centrally planned. Quan (2006, p. 327) points out that, in socialist countries, the state is in control of the means of production and the use of surplus. Because the goal of investment tends to be production oriented instead of profit orientated, the focus of the centrally planned system is not on consumer demand. Therefore, housing was seen as a cost of production rather than as a productive industry in itself. As a result, the investment priority in housing was very low. By the end of the 1970s, this had led to an acute housing crisis (Quan 2006, p. 328).

Fung et al. (2006, p. 85) identify four key problems of the old housing and land-use system in China. First, the low rental rates were not adequate to cover maintenance and construction cost. Work units (*danwei*) were the basis for urban land allocation, and residential units were assigned to employees by their work units. The state heavily subsidised housing through keeping the rents very low and excluding housing costs from wages (Chen & Gao, 1993, p. 268). Lai (1998, p. 232) states that before the reform, *danwei* managed about 60 percent of urban housing stock in China. Thus, a large part of the housing burden had to be borne by the government, but with the increasing population and urbanisation, it was beyond the government's capacity to continue to bear the burden. Second, the growth in demand outpaced housing construction. Third, poor decision-making by authorities led to waste of land. Lastly,

the control of the housing allocation system by *danwei* caused corruption and abuse of power.

In order to address these problems, in 1982, some cities were selected for the “One-third housing sale model”. Under this program, government, SOEs and individuals each bore one-third of the costs for new units (Fung et al., 2006, p. 86). However, because of low incomes, this reform did not spread nationally (Fung et al., 2006, p. 86). Therefore, the initial period of change in property development did not dramatically change the circumstances of China’s property-development industry. The characteristics of the planned economy were still obvious and dominant in this industry. It did, however, show that at least policy-makers were aware that something needed to be done.

Second Stage: late 1987 to 1991

In the second stage, the marketisation process of the real estate industry was formally initiated (Fung et al., 2006, p. 86). Some real estate laws and regulations were enacted during this period, including the 1987 *Land Administration Law*, aiming to restrict the improper conversion of farm land for commercial use, and the 1990 *Provisional Regulations on the Assignment and Transfer of Land Use Rights in Urban Areas*, which regulates the transfer of land (Fung et al., 2006, p. 86). This had the effect of gradually establishing a formal property-development industry. Enacting these real estate laws in the second stage attempted to establish and regulate different players in the property-development industry. This laid the foundation for the dramatic growth of this industry in the third stage.

Third Stage: 1992 onward

It was not until a third stage of market-oriented development, from 1992, that China’s property-development industry experienced dramatic changes. The macroeconomic environment at this time was a significant influence on the property-development industry. During the period of 1978 to 2001, the average annual growth rate of GDP per capita in China was 8.1 percent (Nolan, 2004, p. 9). Many studies have explored the causes of this growth. In his study, Yusuf (1994) summarises these causes, one of which is decentralisation. He sees this as positive, arguing that local governments

have a better understanding of the local economy and resources available and that by decentralisation, the political risk for central government is minimised, and the danger of widespread “poorly conceived actions” can be avoided (Yusuf, 1994, p. 75). Decentralisation and gradual marketisation therefore combined to create many opportunities for the development of enterprises, especially private enterprises.

One of the remarkable events of China’s change in economic policy was when, in 1992, Deng Xiaoping made his famous southern China visit and set the strategy of the market economy for China (Fung et al., 2006, p. 87). In addition to the special economic zones, the State Council designated a large number of border cities, and all capital cities of inland provinces, as well as autonomous regions as economic development zones. These economic zones enjoyed benefits such as special tax treatment and land use, and they were open to foreign investment (Fung et al., 2006, p. 87). This allowed these “cities [to] become economically more autonomous from Beijing and more embedded in their immediate locale; the visual result was an urban-rural sprawl” (Davis, Kraus, Naughton & Perry, 1995, p. 2). The urbanisation of China and rapid growth of Chinese cities significantly increased the demand for housing, which contributed to the development of the property-development industry. Beijing is an example of the urban-rural sprawl. Based on the National Bureau of Statistics of China (1990-2005), Beijing’s population grew by 41.97 percent from 1990 to 2005 to 15.36 million. This sort of explosive population increase and rising urban incomes created a huge demand for private housing.

In terms of land, in July 1994, the *Urban Real Estate Law* was adopted. It provided the legal framework for the real estate market in China at the central level; local government also formed measures to regulate the use, assignment and transfer of land-use rights (Fung et al., 2006, p. 87). Zheng and Kahn (2008) investigated the land and residential property markets in the booming economy by using the evidence from Beijing. They (Zheng & Kahn, 2008, p. 743) noted that in Beijing, initially, property developers negotiated with the government to purchase the right to build, but this was soon replaced by a process of competitive auction because in 2004, the Chinese Central Government required all land leases to be privatised through the public auction process (Zheng & Kahn, 2008, p. 746). Under this system, the growth of new construction has been enormous.

Huang and Yang (1996, p. 174), in their research into speculation and regulation in China's real estate sector, identified three contributing factors to the real estate boom in the 1990s. In their view, the first factor was the increasing demand, especially the increasing demand for commercial offices with the rapid expansion of the market economy resulting from China's economic reform. The second reason was the government's official promotion of the real estate industry. In order to stimulate growth of the real estate industry, the Chinese government supplied cheap land to property developers. The third contributing factor was the boom of speculative investment based on the expectation that property prices would increase. Huang and Yang (1996, p. 175) further note that China's dual-track land-use system, with government allocation of land and private purchase existing side-by-side, may have added impetus to speculative activities. In particular, in the land auction process, land purchasers paid the market value of the land. The simultaneous existence of the system of negotiating directly with officials meant land was also available at a nominal charge or even at no cost from administrators. As a result, most public land was transferred at a discounted price to the investors who were closely connected with the officials making the decisions.

In 1998, the *State Council Document No.23 Notice of the State Council on Further Deepening Urban Housing System Reform and Speeding Up Housing Construction* was issued (Central Government of China (CGC), 1998). It terminated direct public housing distribution to workers. The issuing of *State Council Document No.23* had significant impacts on China's property-development industry, because instead of allocating housing to workers, a policy of cash subsidies for housing to newcomers entering the workplace was introduced. Since then, the direct distribution of housing through work units has been gradually abandoned and urban residents have started to rely more on the market for housing (Man et al., 2011).

Between 1999 and 2010, China's housing market experienced rapid growth as a result of China's overall economic growth. During this period, both the GDP and urban household disposable income grew at an average rate of 10 percent per year (Man et al., 2011). This had an impact on housing prices. Man et al. (2011, p. 4), when investigating China's housing policies and housing markets, point out that since 2005, with China's housing prices skyrocketing, housing affordability has become an

important issue. The implication of this issue, which is relevant to this current research, is that government intervention in the property-development market with the aim of stabilising housing prices, discouraging speculative behaviour, and reducing possible financial risks associated with this industry, became necessary (Man et al., 2011).

In their study of China's housing market, Barth, Lea and Li (2012) summarise key housing policies in China from pre-reform until 2012. Table 2.2 uses some of the key policies in the period 1992 to 2012 identified by Barth et al.'s (2012) work and indicates the changes in government intervention in the property-development industry. The key factors to note are that: 1) the Chinese government remains a significant influence in the property-development industry; 2) the government had different policies in this 10-year period to either promote or cool down the property-development industry; and 3) some of the policies created difficulties for property developers in areas such as access to land and finance. The relevance to this research is in the range and rate of change in the policy environment. In order to survive and develop under this highly controlled industry in which government action varied considerably, China's private property developers needed to develop coping strategies adapted to the changing circumstances in which they were operating.

Table 2.2 Key housing policies in China from 1992 to 2012

Time	Key housing policies	Implications
1994	“A Decision From the State Council on Deepening the urban Housing Reform”.	Defines the goal and overall strategy of reform.
1998	“Circular of the State Council on Further Deepening the Urban Housing System Reform and Accelerating Housing Construction”.	Unveils the blueprint for commercialising urban housing.
1999	The “Guidelines for Personal Consumption Credit Operations”.	Marks the beginning of personal loans, including mortgages.
2000	The end of housing allocation in China.	
2002	Land Public Bidding System is enacted.	
2003	“Circular of the State Council on Promoting the Continuous and Healthy Development of the Real Estate Markets”	Acknowledges that the real estate industry is a pillar of the economy.
2004	Starting August 31, all lands are publicly bid for and auctioned. Home prices soar.	This may increase the difficulty to obtain land for private enterprises.
2005	The “Eight Rules,” the “new Eight Rules,” and “Opinions of Such Departments as the Ministry of Construction on Effectively Stabilizing House Prices”.	Signal the central government’s first efforts to rein in home prices, and created extra difficulty for property developers.
2006	“Opinions of the Ministry of Construction and other Departments on Adjusting the Housing Supply Structure as Well as Stabilizing Housing Prices” required that 70% of homes should be smaller than 90 sq m.	This may have impacts on the flexibility of property developers' choices of housing plan.
2007	The government says it will increase taxes to discourage sales of large homes and start taxing the appreciation of property values based on actual market prices. The down payment requirement for first-time homeowners is increased to 20%. Property Right Law is enacted.	This government tried to cool the property-development industry down.
2009	A series of policy changes is announced to support the property markets	The government promoted the development of the industry.
2010	In April, “Notice of the State Council on Resolutely Curbing the Soaring of Housing Prices in Some Cities” is issued. China announces a rise in down payments required on second homes to 50% from 40%. The Ministry of Housing and Urban-Rural Development stopped bank from issuing bank loans to property developers in purchasing land.	It increased the financial and land-access difficulties to property developers.
2011	In January, “national Eight” regulations increase minimum down payment for second mortgages to 60%. Other tightening measures involving taxes and land transactions are enacted throughout the year.	This government tried to cool the property-development industry down.
2012	Provident funds in some regions ease loan policies for first-time homebuyers	The government promoted the development of the industry.

Source: Barth et al. (2012, pp. 21–22).

China's fast development has created opportunities for the property-development industry. However, there are risks for the industry arising from the nature of this transition process (Fung et al., 2006, p. 96). Fung et al. (2006) identify two major risks. First, China's property-development industry may face a bank loan risk. In China, property-development enterprises mainly rely on bank loans for public financing. However, in developed real estate markets, apart from bank loans, there are other financing options, such as property funds, securitisation of mortgages, and developer-issued bonds (Fung et al., 2006, p. 97). These additional options seem to be very rare in China.

Second, the property market in China is overheated (Fung et al., 2006, p. 97), and one dimension of overheating is housing prices overshooting (Muellbauer, 2012, p. 73). For instance, from 2001 to 2010, Guangzhou housing prices increased 130 percent (Hui, Liang, Wang, Song & Gu 2012, p. 951). Quantity is the other dimension of overheating (Muellbauer, 2012, p. 73). Fung et al. (2006, p. 97) argue that, due to the 1997 Asian Financial Crisis, many vacancies in China's commercial real estate were created. Currently, there is an oversupply situation in some subsectors such as commercial offices, industrial estates, and expensive residential apartment buildings with large units, but the demand for low-end residential apartments cannot be met (Fung et al., 2006, p. 97). The risk this creates for property developers is they may have idle commercial and/or residential units that cannot be sold, which will then affect their cash flows.

In summary, it can be concluded that the unique business environment in China's property-development industry creates particular barriers for the development of private property-development enterprises in addition to the general barriers facing them. The next section discusses these general and particular barriers in more detail.

2.4.3 Barriers faced by China's private property-development enterprises

China's private property-development enterprises face both general and particular barriers and the sources of barriers are both external and internal. The external source arises from the macroeconomic environment of the transitional economy in relation to this specific industry. This is characterised by the lack of a property-rights-based institutional environment, which creates the major external barriers of regulation,

finance, and land access. The source of internal barriers arises from the lack of management expertise and management skills within the enterprises.

Yu's (2013) research on China's property-development industry, explains general and particular barriers as follows. The general barrier is the tension between the market-oriented nature of the housing market and the central-planning character of the government (Huang, 2004), which led to a general regulatory barrier. Yu (2013) further identifies the particular barriers as financial, land-access, and internal. Thus, Table 2.3 shows that China's private property-development enterprises are likely to meet some particular barriers, including the need to access finance and land, and the need for property companies to overcome internal management issues. The existing literature predicts that the three case-study enterprises are likely to meet these barriers, as these barriers were found in other enterprises or industries. The case narratives of the three enterprises under study in Chapters 4, 5 and 6 will reveal the actual barriers they have met and the strategies they have used to overcome them.

Table 2.3 Particular barriers faced by China's private property-development enterprises

Barriers	Explanation	References
Financial	The need for and orchestration of finance.	Brandt & Li, 2003; Guy & Henneberry, 2002; Lardy, 1998; Park & Shen, 2003; Walker & Hin, 1994; Walter & Howie, 2012
Land-access	The need to access land as China's land market is still at an early stage and therefore the land market is not fully established.	Evans, 2008; Ho & Lin, 2003
Internal	The need to develop company structures that are flexible enough to overcome a myriad of problems caused by institutional uncertainty of transitional economy in China.	Tang & Liu, 2002

Source: Adapted from Yu (2013).

The following sections will explain the findings of existing research regarding the regulatory, financial, land-access, and internal barriers.

● **Regulatory barrier**

One of Haggard and Huang's (2008, p. 338) empirical observations when examining the Chinese government's relationship with the private sector is that although

economic reform in China has been well documented, the private sector remains subject to a variety of policy- and government-imposed economic constraints. In China, this regulatory factor may be one of the most influential constraints on private enterprises. This is evident in Tan and Litsschert's (1994, p. 13) research, in which Chinese managers reported that of eight environmental factors (competitors, customers, suppliers, technological, regulatory, economic, social-culture, and international), they perceived that regulatory factors were “the most influential, least predictable, and most complex”. In particular, after reviewing media reports on business practices in China, Tan and Litsschert (1994) found that regulatory information was very difficult to obtain. Even though some regulations are available to managers, the information was very general and vague so it could hardly assist Chinese managers in planning business activities. In response to the too general and vague regulatory information, some Chinese managers made collection and interpretation of regulatory information their primary focus (Tan & Litsschert, 1994). The moral hazard of vague regulations is well known (Guriev, 2004). It creates not only uncertainty but also the possibility of corrupt practice.

China's property-development industry has been heavily influenced by government policy changes. Table 2.2 listed key housing policies from 1994 to 2012, indicating multiple government inventions in the property-development industry. The key fact here is the sheer number and scope of the changes. Furthermore, the changes have not all been in one direction and therefore predictable. Barth et al. (2012, p. 16), in their research into China's housing market, further note that the Chinese government's policies towards the housing market has fluctuated as the economic climate has changed. Lou (2007, p. 1), examining the policy changes in China's real estate sector, concludes that China's real estate industry has been established and fostered by the government and this industry is different from market-driven real estate sectors in most developed economies. Barth et al. (2012, p. 15) classifies Chinese government policy changes from 1998 to 2012 in terms of “booms” and “cooling-off periods”. These are listed in the Table 2.4. The original table by Barth et al. (2012, p. 15) has been modified by adding the potential impact of the policy climate on the private property-development enterprises in China. It presents the policy climate in China from 1998 to 2012, including frequent government interventions in the property-

development industry. In terms of the three case enterprises in this research, all were established in the earlier periods. Therefore, they had experienced most of the government-promoted housing booms and cooling-off periods as set out in Table 2.4.

Table 2.4 Chinese government-promoted housing booms and cooling-off periods

Time period	Policy climate	Details	Potential impacts on property developers
1998-2002	Boom	Encourage the development of private housing markets.	Promote the development of property-development industry. Property developers may benefit from government policies. Demand for properties may increase.
2003-2007	Cooling off	Higher interest rates and bank-required reserve ratios; administrative measures to stabilise home prices.	Discourage the development of the industry. New entry into the property-development industry may be difficult.
2008-2009	Boom	Lower interest rates and required reserve ratios; administrative measures and guidelines to encourage the development of housing markets; economic stimulus package; pilot securitisation programs; personal home mortgages.	Promote the development of property-development industry. Property developers may benefit from government policies. Property developers may also benefit from increasing housing prices.
2010-2011	Cooling off	Higher interest rates and required reserve ratios; administrative measures and guidelines to rein in rising prices; new restrictions on home purchases and mortgage down payments.	Discourage the development of the industry. Potential buyers may take more conservative attitude; the short-run sales of properties may be affected.
2012	Boom	Lower interest rates and required reserve ratios; lower interest rates on mortgages; easier provident fund policy and down payments in certain regions.	Promote the development of property-development industry. Property developers may benefit from government policies. Demand for properties may increase.

Source: Adapted from Barth et al. (2012, p. 15).

Since 2005, the Chinese Central Government has gradually increased intervention in the urban real estate sector through issuing numerous policies, regulations, and rules to control the supply of housing and land, and the sale and purchase of real estate, and to curb speculation (Lam, 2011; Lou, 2007, p. 4). In addition to the increasing government intervention, the enforcement of laws and regulations presents regional differences. He et al. (2011, p. 279) explain that while the Chinese Central Government is responsible for law-making, the quality of law enforcement almost

entirely rests with the local government. Therefore, the level of law enforcement among regions in China differs markedly. These frequent policy changes during the period from 1998 to 2012 must have affected the business operation of private property-development enterprises in general. How particular enterprises were affected by these policy changes and implementation issues will be explored in the case narratives of this research.

Another regulatory barrier faced by China's private property-development enterprises relates to property taxes. In this respect, this current research does not review all taxes related to land and property, but focuses on the conclusions of existing research which evaluates the property taxation system in China and its potential impacts on private property-development enterprises.

Ding (2005, p. 8), in his research into China's property tax development, identifies several key problems with China's tax system. One is that the tax structure is out-dated. As presented in Table 2.5, *Urban Real Estate Tax* was developed in 1951 and another five taxes were established in the 1980s, which was at the beginning of China's economic reform. Ding (2005, p. 8) notes that, given the rapid economic growth in China and institutional changes, the tax system needs to be improved in order to function effectively in China's new context. The impact of out-dated taxes on private property-development enterprises is that they can discourage the property developer if the out-dated taxes do not properly capture the actual transactions in the property-development industry. Redundant taxes can increase the costs of the property-development enterprises and increase their financial stress through increasing the costs to the enterprises.

Table 2.5 Taxes related to land and property in China, 2002

Taxes related to land and property	Government level	Date tax established
Business tax	Central and local	1 Jan., 1994
Enterprise (Corporate) income tax	Central and local	1 Jan., 1994
Personal income tax	Central and local	28 Jan., 1994
Urban construction and maintenance tax	Central and local	1 Jan., 1985
Deed tax	Local	1 Oct., 1997
Housing tax	Local	1 Oct., 1986
Stamp tax	Central and local	1 Oct., 1988
Urban land use tax	Local	1 Nov., 1988
Cultivated land (farmland) occupation tax	Local	1 Apr., 1987
Urban real estate tax	Local	8 Aug., 1951
Land value increment tax	Local	1 Jan., 1994
Others	Central and local	

Source: Ding (2005, p. 9).

A second problem with the property tax system that is particularly relevant to private property developers is that some taxes are redundant. Ding (2005, p. 8) points out that the land value incremental tax, enterprise (corporate) income tax, and personal income tax are all based on net rental or transaction income from properties. This potentially increases the taxes collected from property developers, which increase their financial stress in terms of cash flows and profit margins. The third problem with the current property tax system is that it may fail to address the complexities of emerging market development (Ding, 2005, p. 8). Ding (2005, p. 8) further notes that the current land and property taxes impede the development of the property-development industry for mortgage, re-renting, and subleasing transactions.

In summary, the pitfalls of the current property tax system with its out-dated and redundant taxes can increase the financial burden on property-development enterprises. The impediments of mortgage, re-renting, and subleasing transactions may also affect the sustainable development of those enterprises. In addition, private property-development enterprises are still at a disadvantage when competing with companies that have high levels of state share-holdings (Huang & Boateng, 2013, p. 857). This gives rise to the financial and land-access barriers to be discussed in the following two sections.

● Financial barrier

One important reason to focus on the financial barrier faced by China's private property-development enterprises is the crucial role of the financial system in the economic development that these enterprises are part of. This is well established in the general research literature. Joseph Schumpeter (1934), the pioneer of entrepreneurship literature, notes the services provided by financial intermediaries, such as mobilising savings and evaluating projects, were vital for economic development and technological innovation. King and Levine (1993, p. 717), by examining the cross-country data on 80 countries over the period 1960 to 1989, confirm Schumpeter's view that the financial system can promote or hinder economic growth. Levine (1997, p. 720) also finds a strong positive relationship between the functioning of financial systems and long-run economic growth. This correlation is one of the sources of the investor confidence necessary for investing in property development.

In particular, the banking sector should play a vital role in transition economies, because "bank behaviour determines the hardness of the budget constraints facing enterprises" (Brandt & Li, 2003, p. 387). Wu and his colleagues (2008, p. 962), in their research into small business financing in China, argue that the nation's financial structure and its accompanying lending infrastructure and technologies may significantly affect the availability of credit for SMEs. In China, the government controls the bank-dominated financial system (Brandt & Li, 2003; Lardy, 1998). According to Allen et al.'s (2005, p. 59) research into China's law, finance and economic growth, China's financial system is dominated by a large but undeveloped banking system, and this banking system is controlled by four state-owned commercial banks (SOCBs).

Various researchers have studied the sources of the financial barriers to Chinese private enterprises obtaining formal finance (Brandt & Li, 2003; Poncet, Steingress & Vandenbussche, 2010; Tsai, 2002; Wu et al., 2008). One key source of financial barrier is the discrimination towards China's private enterprises. Although the Chinese government has gradually encouraged the development of SMEs, China's SMEs are still being discriminated against in access to external funding (Cousin, 2011; Irwin & Scott, 2010; Poncet et al., 2010; Wu et al., 2008). Poncet and his colleagues (2010), by

analysing firm-level data originating from the data set ORIANA² which covered more than 20,000 Chinese firms over the period 1998 to 2005, confirm that private firms in China face a high degree of financial constraint. At a less aggregate level, Brandt and Li (2003) use data from townships in Jiangsu and Zhejiang provinces to analyse the extent to which the difficulty of obtaining formal bank loans is the product of discrimination against private enterprises by Chinese banks. They conclude that private enterprises are discriminated against in the formal loan market and they are “significantly less likely to obtain loans, receive smaller loans and are subject to higher loan standards” than SOEs (Brandt & Li, 2003, p. 409).

The first major reason for the discrimination against private enterprises may be preference (Arrow, 1998). In China, banks prefer lending to SOEs rather than to private enterprises for three major reasons. First, because Chinese banks are state-owned they have an ideological preference towards SOEs. Tsai (2002, p. 34), examining China’s informal finance, notes state banks would primarily lend to SOEs because their activities relate more directly to both centrally and provincially defined industrial priorities. In Tsai’s (2002, p. 34) view, this preference is so strong that some of the bank loans could be called “policy loans”. The point here is that government puts pressure on the banks through instructions to extend loans to specific enterprises that are in the prioritised industries defined by the government. Under these circumstances, it may be extremely difficult for private enterprises to compete with those SOEs in applying for bank loans. The state’s “generous financial support to financial institutions” is another source of influence that privileges SOEs over private enterprise in terms of lending (Wu et al., 2008, p. 963).

Second, lending to SOEs generates non-financial benefits to banks so they are willing to sacrifice profits to seek political benefits, with individual bank officers finding it beneficial to support large SOEs through lending practices (Park & Shen, 2003). Third, Chinese banks discriminate against private enterprises as they are deemed to be riskier than SOEs (Park & Shen, 2003). Cousin (2011, p. 84), in his research into China’s banking system, argues that although China’s SOEs are partly responsible for the large

² ORIANA is a comprehensive, database containing financial information on over 7 million public and private companies in 40 countries including the Middle East and Asia-Pacific regions.

volume of non-performing loans (NPLs) in the SOCBs, large SOEs may still be more likely to obtain bank loans because the riskiness of SOEs may be considered less than that of private enterprises, because government will support the SOEs regardless of their performance. Therefore, if banks lend to SOEs, in the event of default, the government may use government funds or funds from other SOEs to repay the loan, but this possibility of rescue does not exist in private enterprises (Brandt & Li, 2003, p. 389).

The fourth reason for the discrimination against China's private enterprises in obtaining bank loans is related to "the historical political pecking order of firms in China" (Wu et al., 2008, p. 963). Wu et al. (2008) suggest that this SME difficulty is explained by government interference, the historical relationship between SOEs and the SOCBs as well as the general environment in China's financial market. Poncet et al. (2010, p. 411) also find that this discrimination was embedded in China's political notion that private firms do not rank as highly as SOEs with regard to political status.

Other research findings on the factors restricting private enterprises from obtaining banks loans are that banks lack experience in lending to private enterprises and have an institutional bias (Tsai, 2002). Wu et al. (2008) note that China's financial market is considered "an underdeveloped debt and capital market with some peculiar features". In particular, credit officers may have not been properly trained to be commercial bankers. Tsai (2002) reports that in post-1949 China, credit officers were trained as bureaucrats to apply regulations rather than to make market judgements. Even in the 2000s, the educational system was not equipped with technical training required for evaluating creditworthiness.

The lack of a clear property rights system with regards to what could be used for collateral, particularly in rural China, has been another major reason for the difficulty in obtaining bank loans (Avery, Zhu & Cai, 2009, p. 194). In addition, only a small proportion of around 4 percent of China's commercial loans were financed by movable assets (FIAS and IFC PEP China, 2007), as under *China's 1995 Security Law* non-possessory security interests were allowed for equipment and motor vehicles only (Central Government of China (CGC), 1995). This meant that assets such as accounts receivable and inventories, which tended to account for around 50 percent of Chinese SMEs' assets, could not be used as collateral (Marechal, Tekin & Guliyeva, 2009, p.

13). The point for this thesis is clear, that it is difficult for property-development enterprises with little collateral recognised by banks to obtain bank loans. This impedes the development of the enterprises.

● **Land-access barrier**

The research literature shows that the difficulty in obtaining land forms the third barrier to private property developers in China. This is created by the state-led character of economic development in general, and the property-development industry in particular. Land reform is particularly important for property development (He & Zhu, 2010, p. 364). Researchers note that state-led development can have positive impacts, where the industry is boosted by drastic increases in land supply by central and local governments (Man et al., 2011, p. 5). Man et al. (2011, p. 5) note that when the central government in China was determined to stimulate property-development and construction industries, more land was almost immediately supplied for building residential and commercial properties. After the 1994 tax reform, most local governments had a large fiscal gap between their expenditure and revenue assignments, which forced them to seek other sources of revenue. This led to local government also accelerating the growth of property development. In response to the fiscal gap, in the late 1990s, local governments began to collect fees from land leasing or land transfer, with the aim of financing public goods and services (Man et al., 2011, p. 5).

The increased land supply has not meant that private property-development enterprises could obtain land resources, or access to the land they needed smoothly. At the same time as the increasing number of land auctions was encouraging the industry, other barriers arose from government regulations. For example, the *Provisions on Assignment of State-owned Construction Land Use Right through Bid Invitation, Auction and Quotation* (Ministry of Land and Resources, 2007), which was originally introduced in 2002 and modified in 2007, created a significant land-access barrier to private property-development enterprises, particularly small and medium-sized property-development enterprises. Previously, in China, land-use rights could be granted by negotiated agreement between land users and local government. However, with the enforcement of *Provisions on Assignment of State-owned Construction*

Land Use Right through Bid Invitation, Auction and Quotation, land intended for industrial, commercial, tourism, entertainment, and residential use or land intended for more than one user must be granted by way of public bidding, auction, or listing on a land exchange (Ministry of Land and Resources, 2007). Therefore, property-development enterprises with major business in residential building development needed to go through the public bidding, auction, or listing process. However, a new land-access barrier was that qualifications and requirements set by government favoured large state-owned property-development enterprises. Liu's (2007) discussion of small to medium-sized property-development enterprises in China illustrates the high level of requirements that effectively prevented private, especially small to medium-sized property developers, from bidding for land-use rights.

In 2003, for instance, the bidding requirements for a piece of land in Shanghai, New Jiangwan City D1, were that property-development enterprises should be foreign enterprises with a minimum deposit of US\$100 million or qualified domestic property-development enterprises with the following qualifications:

1. Hold national Grade One property-development qualification;
2. Total development area in the last three years should be no less than 500,000 square metres;
3. Registered capital is more than RMB 150 million (US\$22.39 million); and
4. The enterprise must pay a security bond of RMB 50 million (US\$7.46 million) (Planning and Land Resource Bureau of Shanghai, 2007).

This meant that private property-development enterprises were not qualified to bid for the piece of land in the public auction, because the requirements were too high for China's private property-development enterprises to meet. For example, few private enterprises were qualified as Grade One property-development enterprises because the requirements to become Grade One developers were very demanding for private property developers to achieve. In 2000, the Ministry of Housing and Urban-Rural Development enacted *Order 77: Regulations on Qualification of Property-development Enterprises in 2000* (Ministry of Housing and Urban-Rural Development, 2000). *Order 77* specifies the grading system as well as financial and technical requirements for property-development enterprises. Table 2.6, adapted from Tang and Liu's (2002) work on classification of specialised property-development companies in 1993, shows the

modified classification and requirements enacted in 2000. Comparing the requirements set in 1993 and 2000, the registered capital required increased dramatically for Grade One to Grade Three developers. For example, for a Grade One developer, the registered capital required increased from RMB 20 million to RMB 50 million. Very few private property-development enterprises had such a strong financial capacity in terms of the registered capital and security bond.

Table 2.6 Classification of specialised property-development companies in China, 2000

Grade	Capital	Personnel	Levels of Personnel	Years of Experience	Track Record
1	Liquid capital >50M Reg.capital ≥50M	Professional staff ≥40 Middle-to-Top Mgt ≥20	Chief engineers, accountants and economists at senior levels; Other key responsible staff at middle professional levels	5 years	Completed over 300,000 sq m housing floor area (or equivalent venture) in last 3 years; 100% pass in building quality check over 5 years consecutively
2	Liquid capital >20M Reg.capital ≥20M	Professional staff ≥20 Middle-to-Top Mgt ≥10	Key staff in civil engineering, accounting, finance and economics at middle professional levels	3 years	Completed over 150,000 sq m housing floor area (or equivalent venture) in last 3 years; 100% pass in building quality check over 3 years consecutively
3	Liquid capital >8M Reg.capital ≥8M	Professional staff ≥10 Middle-to-Top Mgt ≥5	Key staff in engineering and finance at middle professional levels; Other key staff at assistant professional levels and supported by junior bookkeeping staff	2 years	Completed over 50,000 sq m housing floor area (or equivalent venture) in last 3 years; 100% pass in building quality check over 2 years consecutively
4	Liquid capital >1 M Reg.capital ≥1 M	Professional staff ≥5	Key staff in engineering at middle professional levels; finance staff at junior professional levels supported by bookkeeping staff	1 year	No severe construction-quality accidents

Source: Adapted from Tang and Liu (2002, p. 10)

While New Jiangwan City D1 in Shanghai is only one example illustrating the land-access barrier faced by private property-development enterprises, Liu (2007) concludes that the problem is widespread across China. Zhu (2012, p. 254) shares this view and explains that government usually lifts the entry bar in public auctions by requiring enterprises to hold a certain minimum capital or rating. He notes the common result of this government behaviour is that only a limited number of enterprises can compete, very often only one or two. In other cases, the winner is predetermined (Zhu, 2012, p. 254). Following this argument, the land-access barrier to private enterprise was partly caused by government regulation, which restricted the development of private property developers and favoured the involvement of large SOEs.

The other barrier to accessing land, which may arise after obtaining the legitimate land-use rights from government, is related to the compensation standards. This issue is particularly relevant to property developers who acquire land converted from agricultural land for property-development projects. This is significant for property development in China because rapid industrialisation and urbanisation in China has caused the conversion of much agricultural land to non-agricultural use (Azadi, Ho & Hasfiati, 2011; Ho & Lin, 2004). Zou and Oskam (2007, p. 107) note that, “agricultural land conversion is a common worldwide phenomenon”. However, compensation standards have been a cause of conflict in China. In the situation of an undeveloped real estate market, it was difficult to judge whether the compensation standards for villagers were reasonable. Zou and Oskam's (2007, p. 107) research into compensation standards for land expropriation in China identifies the differences between compensation standards in developed countries and in China. They (Zou & Oskam, 2007, p.107) argue that in developed countries, the developed real estate market can reflect the land value after expropriation, so compensation standards could be based on the market value of land. In China, however, agricultural land cannot be traded in the market and therefore there was no market price for agricultural land being converted to land open to development. Although the *Land Administration Law of the People's Republic of China* in 1998 sets out the compensation standards for state expropriation, these standards are based on a rather simple method, ignoring the land value increments after the conversion (Zou & Oskam, 2007, p. 108). In particular, the *Land Administration Law of*

the People's Republic of China states that compensation for state expropriation consists of compensation for the loss of land, resettlement subsidies, and compensation for young crops and fixtures:

Compensation for expropriated of cultivated land shall be six to ten times the average annual output value of the expropriated land, calculated on the basis of three years preceding such requisition ... The standard resettlement subsidies to be divided among members of the agricultural population needing resettlement shall be four to six times the average annual output value of the expropriated cultivated land calculated on the basis of three years preceding such expropriation. However, the maximum resettlement subsidies for each hectare of the expropriated cultivated land shall not exceed fifteen times its average annual output value calculated on the basis of three years preceding such expropriation. Rates of land compensation and resettlement subsidies for expropriation of other types of land shall be prescribed by provinces, autonomous regions and municipalities directly under the Central Government with reference to the rates of compensation and resettlement subsidies for expropriation of cultivated land (Standing Committee of the National People's Congress, 2004).

Because the compensation standards exclude the increments of land value after conversion, some villagers receive very little compensation. This has led to villagers' protests and rural conflicts over land development. Guo's (2001) research into agricultural land development in the village of Banyan reveals that villagers were poorly compensated. This finding has been confirmed by other Chinese scholars. For example, Xu (2012), in a case study of the Old Village Conversion Program in Shenquan Village, Shandong Province, argues that income distribution and power differences led to conflicts. Xu (2012) observes that villagers were in a weak position *vis-a-vis* both the local government and the property developers with whom they were negotiating compensation. Local government was politically more powerful and property developers were financially more powerful than the villagers. Xu (2012) also argues that the compensation standards were unfair to villagers, and were more beneficial to local government and property developers, because villagers could only receive a small amount of compensation while the incremental value of land would be shared between property developers and local government. Conflicts, actual and potential, cause uncertainty and disruption to property developers leading to delay in construction and additional financial stress.

- **Internal barrier**

In this current research, the idea of an internal barrier affecting the private property developers refers to two elements: the lack of management skills in different business aspects including marketing, finance, and human resources management (HRM); and the simple organisational structure and informal HRM of China's private enterprises. There is little written specifically on the internal barrier faced by China's private property developers. However, management skills of Chinese entrepreneurs and the internal barrier confronted by private enterprises in China more generally have been researched (Bai & Enderwick, 2005; Nankervis, 2013).

Generally speaking, the lack of management skills in Chinese enterprises has been related to the continuation of the management traditions from the centrally planned economy. In the planned economy, almost all means of production, such as land, machinery, and capital goods were controlled by the government, and in terms of human resources, jobs were assigned by government (Bai & Enderwick, 2005, p. 23). Therefore, there was no need for market-oriented management skills and personnel in the planned economy. Bai and Enderwick (2005, p. 25), in their research into China's economic transition and management skills, note that traditional Chinese management had three key characteristics: top-down decision making, vertical communication, and focus on production. Furthermore, given the characteristics of Chinese traditional management, Bai and Enderwick (2005, pp. 25–27) report that Chinese managers are more likely to lack management skills in areas including risk management, linking pay and performance, financial management, marketing, and corporate governance. The lack of these management skills can impede the development of enterprises.

Other academic research also confirms the lack of management skills in Chinese enterprises. For example, Nankervis (2013, p. 186), in a study of talent management in China, concludes that a number of Chinese industries face serious HRM challenges, especially given China's fast economic growth. China's property-development industry is identified as one of these industries with serious shortages of technical and professional specialists (Nankervis, 2013, p. 189). The need for management skills became more obvious given China's economic transition and increasing integration into the world economy. Changes in China's economy which had significant implications for Chinese enterprises and the change need for management skills, are summarised in Table 2.7.

Table 2.7 Changes in Chinese economy and implications for management skills

Changes in China's economy	Implications for management
Greater reliance on market forces	Market positioning; quality, reputation, and advertising of products; determinants of supply, demand, pricing.
Greater international influences	Intensive competition; new competitors; new technologies and ideas; international rules and regulations; organisational structure; and international communication (language).
Workforce / HRM	Performance reward system, recruit system, training and staff development.
Financial Sector	Financial budget; corporate governance; management of risk; familiarity with sophisticated financial instruments.
Welfare and social safety net	Lay-offs and corporate restructuring (breaking of 'iron rice bowl' policy); need to maintain social stability, labour mobility and opportunities for re-training.
Creativity and innovation	R & D, patent protection and knowledge management. Shortening of the PLC. Growth of the new economy has increased the demand for knowledgeable skilled labour with creativity and innovation characteristics.
Consumer laws and protection	Customer services such as post-purchase service; and public relations; role and value of branding.
Competition levels necessitate competitive advantage	Need to identify, create, maintain and utilise distinctive forms of competitive advantage; need to understand and effectively manage the underlying sources of such advantage, e.g. skilled labour.
Shift from a production to a marketing orientation	Need to recognise the growing importance of the marketing function; investments in the stages of marketing and appreciation of the elements of the marketing mix; appreciation of the integration between marketing and other functions, e.g. production, R&D.
Development of market supporting institutions	Recognition of the operating constraints provided by such institutions; shift from relationship-based to rules-based management.

Source: Bai and Enderwick (2005, p. 32).

With the rapid growth of China's private enterprises and its transition to a market-oriented economy, management requires a better understanding of its market realities of issues such as market position, pricing, recruitment, and flexible organisational structure (Bai & Enderwick, 2005, p. 34). Improving management skills in these areas as detailed in Table 2.7 can increase the enterprises' capacities in coping with the market conditions not existing in a planned economy.

The second element of the internal barrier is related to the simple organisational structure and informal HRM of China's private enterprises. In China, the major form

of private enterprise is family business (Bai & Enderwick, 2005, p. 34). International researchers confirm the benefits of simple organisational structure and informal HRM of private enterprises when facing external uncertainty. For instance, Peng, Lu, Shenkar and Wang (2001, p. 102) report that family-based decision structures and extended business networks are predominant strategies of overseas Chinese firms faced with uncertain environments. Furthermore, many international HRM researchers conclude that SMEs tend to have informal HRM approaches (Cunningham & Rowley, 2010; Harney & Dundon, 2006; Torres & Julien, 2005) and these informal HRM approaches reflect the key characteristics of SMEs, such as “flexibility, informality, external uncertainty and innovation” (Cunningham & Rowley, 2010, p. 320).

However, the simple organisational structure and informal HRM practices can become internal barriers because of: 1) the limitations of family-based and centralised structure of small Chinese enterprises; 2) the failure of the simple organisational structure to cope with the complicated nature of the property-development industry; and 3) the excessive degree of informality of HRM practices. Despite the benefits of the family-based and centralised structure, this organisational structure has limitations. For instance, “the lack of creativity and professionalisation may lead to an inability to create and sustain world-class competitive advantages” (Peng et al., 2001, p. 102).

Second, property development is a complex process involving numerous participants and professionals from different business sectors and organisations (Li, 2011, p. 15). For instance, Cadman, Wilkinson and Reed (2008, p. 3) divided the development process into eight major stages, including initiation, evaluation, acquisition, design and costing, permissions, commitment, implementation, and let/ manage/ dispose. Although the description of these stages appears very simple, the activities involved in each stage are very complex and require cooperation of a number of stakeholders from different business sectors, such as suppliers, design, and construction companies (Li, 2011). Under such a complex environment in this industry, whether a simple organisational structure and informal HRM are adequate to address issues or hinder the development of the enterprise is a question that can only be explored in relation to the actual experience of specific enterprises. This is especially the case when the enterprise grows in size and complexity, and the question arises as to whether the enterprise should retain the simple organisational structure or adopt a more systematic

organisational structure and more formal HRM practices (Cunningham & Rowley, 2010, p. 320)?

Third, an excessive degree of informality of HRM practices has the potential to be an additional source of internal barrier. Ram, Edwards, Gilman and Arrowsmith (2001, p. 846) note that, informality in SMEs is “a matter of degree and not kind, and its nature may vary as much between firms of a given size as between large and small ones”. If the degree of informality is excessive with very few HR policies being formalised, it is hard for the human resources (HR) system to cope with the growth and increasing complexity of the enterprise.

The internal barriers faced by private firms generally are likely to be found in China’s private property-development enterprises. There may even be other internal barriers faced by these enterprises. The case narratives of the three enterprises selected for this current research will look in detail at all the internal barriers they have faced in practice.

2.5 Research framework

This research is framed within a dichotomy. On one hand Chinese government policies of economic reform create opportunities for private enterprise. On the other hand, such enterprises face serious barriers from the Chinese business environment. The research literature shows this to be the case in general. The case narratives of particular enterprises investigated in this research will provide evidence of the extent to which this is true for the property-development industry.

Despite the unconducive business environment in China and the barriers that private property-development enterprises are expected to face, as revealed by the research literature, the growth of the industry, especially in terms of private enterprises has been enormous. The number of private property-development enterprises in China increased dramatically between 1998 and 2010. The National Bureau of Statistics of China (2011) classifies Chinese enterprises by type of ownership, including domestic-funded enterprises, enterprises with funds from Hong Kong and Macau, and foreign-funded enterprises. Domestic-funded enterprises include state-owned, collective-owned, cooperative, joint-ownership, limited-liability, shareholding, and private enterprises.

In 2010, the number of private enterprises was the largest classification among domestic-funded enterprises, with 46,839,000 out of a total of 63,005,000 domestic funded enterprises in China (National Bureau of Statistics of China, 2011). From Table 2.8, it can be seen that the proportion of cooperative, joint-ownership, limited-liability, shareholding, and private enterprises among domestic-funded enterprises has increased from 37.39 percent in 1998 to 93.83 percent in 2010. A major source of this increase was the growing number of private property-development enterprises.

Table 2.8 Number of property-development enterprises in China

Year	Numbers of Enterprise	Total Domestic funded enterprises	SOEs	Collective-owned enterprises	Cooperative, joint ownership, limited liability, shareholding and private enterprises	Proportion of cooperative, joint ownership, limited liability, shareholding and private enterprises among domestic funded enterprises	Enterprises with funds from Hong Kong, Macao and Taiwan	Foreign funded enterprises
1998	24378	19960	7958	4538	7464	37.39%	3214	1204
1999	25762	21422	7370	4127	9925	46.33%	3167	1173
2000	27303	23277	6641	3492	13144	56.47%	2899	1127
2001	29552	25509	5862	2991	16656	65.29%	2959	1084
2002	32618	28657	5015	2488	21154	73.82%	2884	1077
2003	37123	33107	4558	2205	26344	79.57%	2840	1176
2004	59242	53495	4775	2390	46330	86.61%	3639	2108
2005	56290	50957	4145	1796	45016	88.34%	3443	1890
2006	58710	53268	3797	1586	47885	89.89%	3519	1923
2007	62518	56965	3617	1430	51918	91.14%	3524	2029
2008	87562	81282	3941	1520	75821	93.28%	3916	2364
2009	80407	74674	3835	1361	69478	93.04%	3633	2100
2010	85218	79489	3685	1220	74584	93.83%	3677	2052

Source: Adapted from Section 5-28 of China Statistical Yearbook (2011).

The sharp contrast between the unconducive business environment in China and the fast growth of private property-development enterprises again poses the questions this research is set to investigate: how have private property-development enterprises in China survived and developed? This can be broken down into a number of subsidiary questions: what exactly are the barriers they met? Are they the same as those being identified from existing literature? When facing these barriers, what strategies did they use and how were these strategies implemented?

Because these questions are complex, it would be unreasonable to expect that existing research literature could address them in a simple and neat way. This was a significant factor in the choice of case narratives as a research approach to illuminate how

enterprises faced these questions in their day-to-day activity. These narratives allow the research to illuminate the actual experience of the enterprises over time as they come to terms with the barriers to success. This has the advantage of revealing the detail of their activities needed to explain complexity but the disadvantage of not fitting neatly into a pre-existing model that could be used for the purpose of analysis.

One possible framework for analysing the complexity of the three case narratives is Scott and Bruce's (1987) framework of small business growth. Existing literature identifies the concept of an organisational life cycle following a predictable pattern and including sequential and progressive stages as a viable concept (Dodge & Robbins, 1992, p. 27; Poutziouris, Binks & Bruce 1999; Tonder, 2010, p. 1). This organisational life cycle concept has its origin in literature of economics (McMahon, 1998, p. 24). The organisational growth, or organisational cycle, models are based on "biological metaphor" (McMahon, 1998, p. 24), which means that "organisations seem to take on a 'life' that can be compared to living organisms" (Lester & Parnell, 2008, p. 541). Following this concept, a large number of organisational cycle models have been developed for general business (Greiner, 1998; Lester, Parnell & Carraher, 2003), for large organisations (Miller & Friesen, 1984; Quinn & Cameron, 1983), and specifically for small businesses (Churchill & Lewis, 1983; Scott & Bruce, 1987).

These organisational growth models for large and small businesses vary in the number of stages ranging from three to ten stages in composition (Lester & Parnell, 2008, p. 540; Tonder, 2010). Lester and Parnell (2008, p. 541) note that "larger models tend to break down general stages into much more specific time periods, whereas shorter models tend to consolidate two or more developmental periods in an effort to present a more straightforward depiction of organisational life". Despite the variance in numbers of stages, most of these organisational cycle models are time-sensitive. The general structuring of these organisational life cycle models are similar (Dodge & Robbins, 1992, p. 27) and this "reveals a fairly consistent pattern of organisation evolution" (Hanks, Watson, Jansen & Chandler, 1993, p. 9).

This research uses Scott and Bruce's (1987) framework of small business growth. This framework classifies small business growth into five stages of inception, survival, growth, expansion and maturity. This research will use the stages of growth

framework to organise the discussion of the case narratives in Chapter 7. Here a brief explanation of this framework will show its suitability.

Three factors contribute to the use of Scott and Bruce's (1987) framework for analysis. First, similar to other organisational life cycle models, this framework is time-sensitive and it has a specific focus on the “stage” of the business growth and specifies the characteristics of each stage. This provides a clear way to analyse key issues identified in the narratives of each case enterprise. Second, Scott and Bruce's (1987, p. 46) definition of small businesses also fits into the characteristics of the three case enterprises in this research. The characteristics include:

- (i) Management is independent. Usually the managers are also owners.
- (ii) Capital is supplied and ownership is held by an individual or small group.
- (iii) Area of operations is mainly local. Workers and owners are in one home community, *but markets need not be local* [emphasis in original] (Scott and Bruce, 1987, p. 46).

Third, Scott and Bruce's (1987) framework is one of these frameworks that take particular account of crises as the events that precipitate each stage of growth (Scott & Bruce, 1987). This makes it particularly suitable for this study of the barriers encountered by the case enterprises as crises and the action taken to address them. Scott and Bruce's (1987) model presents the unsettled period when a crisis occurs as the point of change at each stage when an enterprise moves forward in its life cycle (Mount, Zinger, & Forsyth, 1993, p. 112). The anticipation of these crises and the successful management of the change that they cause will ensure the survival and growth of the small business (Scott & Bruce, 1987, p. 51). It is the similarity between Scott and Bruce's (1987) framework of crisis leading to a new stage and the identification of barriers and the action taken to overcome them observed in the case narratives which make their framework a suitable one for organising the discussion of these cases of strategies used by China's private property-development enterprises.

The framework thus allows the discussion of barriers and strategies to be organised according to the stage of growth in which they arise. This will assist with analysis of empirical findings in Chapter 7 by locating the subject matter of the narratives in a general framework of business growth, so that the relationship between the actions taken by the particular enterprise and that enterprise's success can be understood. This

framework will also facilitate comparison between these enterprises and broader research findings on business success.

In order to distinguish each growth stage and place the case narratives into each stage of the framework for further discussion on barriers and strategies, Table 2.9 presents the characteristics of each stage of business growth in Scott and Bruce's (1987) model.

Table 2.9 A model for small business growth

	Stage 1. Inception	Stage 2. Survival	Stage 3. Growth	Stage 4. Expansion	Stage 5. Maturity
Stage of industry	Emerging, fragmented	Emerging, fragmented	Growth, some larger competitors, new entries	Growth, shakeout	Growth/shakeout or mature-declining
Key issues	Obtaining customers, economic production	Revenues and expenses	Managed growth, ensuring resources	Financial growth, maintaining control	Expense control, productivity, niche marketing if industry declining
Top management role	Direct supervision	Supervised supervision	Delegation, co-ordination	Decentralisation	Decentralisation
Management style	Entrepreneurial, individualistic	Entrepreneurial, administrative	Entrepreneurial, co-ordinate	Professional, administrative	Watchdog
Organisation structure	Unstructured	Simple	Functional, centralised	Functional, decentralised	Decentralised functional/product
Product and market research	None	Little	Some new product development	New product innovation, market research	Production innovation
Systems and controls	Simple bookkeeping, eyeball control	Simple bookkeeping, personal control	Accounting systems, simple control reports	Budgeting systems, monthly sales and production reports, delegated control	Formal control systems, management by objectives
Major sources of finance	Owners, friends and relatives, suppliers leasing	Owners, suppliers, banks	Banks, new partners, retained earnings	Retained earnings, new partners, secured long-term debt	Retained earnings, long-term debt
Cash generation	Negative	Negative/breakeven	Positive but reinvested	Positive with small dividend	Cash generator, higher dividend
Major investments	Plant and equipment	Working capital	Working capital, extended plant	New operating units	Maintenance of plant and market position
Product-market	Single line and limited channels and market	Single line and market but increasing scale and channels	Broadened but limited line, single market, multiple channels	Extended range, increased markets and channels	Contained lines, multiple markets and channels

Source: Scott and Bruce (1987, p. 48).

2.6 Summary

This chapter provided the context for research into how China's private property-development enterprises overcame barriers to business success by reviewing two sets of literature: the development of China's private sector and the development of China's property-development industry. This review led to the conclusion that Scott and Bruce's (1987) stages of growth provided a logical framework for analysis of the experience of the case narrative enterprises both in comparison to each other and in comparison to the patterns of business success seen as normative.

In terms of the development of China's private sector, it was noted that China shares similarities with most transition countries, such as the lack of established formal institutions and an underdeveloped financial market. The discussion of China's private sector explains the general business and economic environment faced by China's private enterprises. By reviewing existing literature, this chapter identifies networking, trust and reputation, political connections, and personal traits as four main themes relating to the potential strategies used by China's private enterprises in general to overcome barriers to business development.

In terms of the development of China's property-development industry, this review of research findings identified the potential barriers faced by private property-development enterprises, in terms of regulatory, financial, land-access, and internal barriers. To some extent these may be overlapping and interwoven. This is notably the case when the regulatory barrier leads to the financial barrier. For instance, the redundancy existing in China's property tax system, noted in the literature, may reasonably be expected to increase the financial stress of private property developers. On the other hand, the internal barrier in China's private property-development enterprises has not been the subject of research. Given the literature on the more general problems of internal management in China's private enterprises, it is reasonable to expect that this will also be the case with property-development enterprises.

Chapters 4 to 6 provide case narratives of selected enterprises to explain how they overcome different barriers as they sought to become established and survive. These case narratives are used to firstly identify what barriers they meet using as a potential,

but not exclusive, guide, the list of regulatory, financial, land-access, and internal barriers identified in the literature. These three case narratives also illustrate how the case enterprises used their own strategies to overcome the barriers. Once again the four themes emerging from the literature, including networking, political connections, trust and reputation, and personal traits are used as indicative but not prescriptive of what can be expected in the details of the narratives.

In this chapter, existing research literature has been used to establish a general idea of the barriers likely to be faced by private property developers in China. This chapter also addressed the research framework of Scott and Bruce's (1987) small business growth model and its usefulness in analysing the case narratives. Before presenting these three case narratives, the next chapter discusses the research design and methodology on which the articulation of these narratives has been based.

Chapter 3 The research design and the research process

3.1 Introduction

The previous chapter elaborated the context for this research from two aspects: the development of China's private sector and the development of China's property-development industry. By reviewing the literature on these two aspects, major barriers confronted by China's private property-development enterprises were identified as regulatory, land-access, financial and internal management barriers. The main possible strategies in response to these barriers were also discussed, including networking, trust and reputation, political connections, and personal traits.

This chapter explains the research design and research process of this study. This research uses a qualitative multi-case research approach (Creswell, 2007; Stake, 1995; Yin, 2009, 1981). By using this approach, this research aims to investigate how Chinese entrepreneurs in the property-development industry used different strategies to overcome the barriers created by China's political and economic environment.

In China, various levels of government focus on collecting data on the overall development of the property-development industry, however its overall development cannot represent the status quo of private enterprises in this industry. In addition, while the enterprises have reporting ambiguities, there is no simple way of knowing what is going on in the private property-development enterprises. Therefore, in order to investigate the survival and development of China's private property-development enterprises, empirical data has to be collected at an enterprise level. The aim of this is not to provide an overview of the whole industry but to investigate in depth the narratives of specific enterprises in order to find out how China's private property developers conquer difficulties they meet during the development process. With regard to the three case enterprises, publicly available information is very limited. Therefore, this research relies heavily on the information collected through in-depth interviews with key informants during field trips. Where possible, it also uses the limited written sources such as company documents and newspaper articles. The field trips were conducted during the period January 2010 to March 2012, including the first preliminary informal interviews conducted during my MPhil study, and two field trips

during my PhD study. After the field trips, I maintained contact with key informants throughout the research, which enabled me to contact them by telephone when I needed to confirm important information.

The information collected during the field trips formed the three case narratives presented in Chapters 4, 5 and 6. This research examines three cases separately, focusing on examining how these enterprises used their strategies to overcome barriers to business success.

This chapter starts with the illustration of research design and methodology of this research. Section 3.2 provides the rationale for the qualitative research method and multi-case study approach used in this research. Section 3.3 elaborates the data collection process for this research, including preliminary informal interviews and accessing informants, informant selection, obtaining ethics approval, field trips, and note taking as well information recording. Section 3.4 addresses the data interpretation and analysis approaches. Section 3.5 justifies the validity, reliability and generalisability of this research and Section 3.6 discusses the limitations of this research.

3.2 Research design and methodology

In general this current research follows orthodox qualitative research methods (Creswell, 2007; Denzin & Lincoln, 2005b; Merriam, 2009) using multiple case studies that employing narrative inquiry methods (Wells, 2011). In particular, the use of the narrative inquiry methodology privileges human experience (Clandinin, 2007). The following section explains the value of this for the current research.

3.2.1 Rationale for qualitative research methods

In this research I adopted qualitative research approaches because they allowed me to study the meaning of a phenomenon for people involved (Merriam, 2009, p. 5). In this case, qualitative methods enabled me to identify barriers the China's property developers have met and the corresponding strategies those enterprises have used to address these barriers. This enabled me to deduce an understanding of the strategies required to respond to these barriers.

I was careful in my use of qualitative research approaches to ensure that it was consistent with existing literature on qualitative research methods. For example, in Merriam's (2009, p. 14) words, the emphasis of qualitative research is more on delineating the process of meaning-making rather than listing the outcome or products. Merriam (2009, p.14) also mentions that qualitative research describes how people interpret their own experience from the participants' or insiders' perspectives. This is particularly relevant to this current research, because the key informants' personal perspectives presented in this research contribute to the understanding of how they overcame the barriers they encountered. This also fits with Creswell's insight (2007, p. 40) that qualitative research is most useful when a problem needs to be minutely explored such as: when there is a need for a complex and detailed understanding of an issue; when the researcher wants to empower individuals to share their own stories; and when quantitative measures cannot fit the problem. All these conditions are present in the issue of understanding how the entrepreneurs in this study took actions and used strategies to overcome barriers to business success. Creswell (2007, p.40) takes the argument further by suggesting that quantitative measures can hardly be used if the research focuses on interaction among individuals. Once again, this is precisely the case with the narratives of entrepreneurial capacities to overcome barriers to business success, because the process of overcoming barriers involves interactions among different individuals, such as an old friend and a government official. It is very difficult to quantify this process.

Much has been written on the differences between quantitative and qualitative research as well as the appropriateness of each research method (Denzin & Lincoln, 2005a; Holliday, 2007; King & Horrocks, 2010). The emphasis here is not on listing all the differences, but to point out the appropriateness of qualitative methods in relation to this current research. Qualitative research seeks to address questions that focus on how social experience is created and given meaning (Denzin & Lincoln, 2005a, p. 10). In this research, qualitative research methods provided useful tools to study the experience of the three selected enterprises with a specific focus on how they used strategies to overcome the barriers they met. On the other hand, quantitative research methods following the generalisable principle could not fit into the aim of this research, because they average away the most important and valuable process by which these

entrepreneurs overcame barriers. Gartner (2010, p. 11) articulates this view on the limitations of quantitative studies as follows:

Generalisable principles – ‘on average’ – are offered in these studies, but the nuances of particular entrepreneurial situations, the nuances that actually characterise how individuals go about thinking through, over time, the complications of utilising their capabilities and resources as they are both informed by, and seek to change their circumstances, is ‘averaged’ away.

Therefore, given this study’s focus on how the entrepreneurs actually acted to barriers they met during the development process, quantitative methods would be unlikely to be revealing.

3.2.2 Rationale for narrative inquiry

This research investigates the process by which China’s private property-development enterprise overcame barriers through a detailed investigation of the experience of three private property-development enterprises in a regional city in China. Narrative inquiry methods fit this research aim, because “narrative is a way of characterising the phenomena of human experience” (Connelly & Clandinin, 1990, p. 2). Although narrative is argued to be “both phenomenon and method” (Connelly & Clandinin, 1990, p. 2), it serves as a useful method to study the experience. This is because it has the capacity to “render life experience, both personal and social, in relevant and meaningful ways” (Connelly & Clandinin, 1990, p. 10).

This study also relates to entrepreneurship, as it looks into the start-up and the early development of the three selected enterprises. In the field of entrepreneurship, narrative inquiry methods can best address issues in entrepreneurship that are “concerned with entrepreneurial intentions and actions and their interrelationships with circumstance” (Gartner, 2010, p. 12). Entrepreneurship is complicated and complex, and a narrative approach may usefully address this complexity since “there is no one particular entrepreneurial characteristic that can capture the nature of entrepreneurship” (Gartner, 2010, p. 7). In particular, narrative approaches provide useful tools for “exploring what entrepreneurs (or others) say about what they do” (Gartner, 2007, p. 616).

The use of narrative inquiry method in this research contributes to a need for sense-making stories in the field of entrepreneurship. This picks up on Gartner's (2007, p. 624)

conclusion that entrepreneurship scholars face a “story deficit”. He explains that, although academic entrepreneurship scholars live in a world offering stories by and about entrepreneurs, academic entrepreneurship scholarship lacks recognition and discussion of entrepreneurship stories. This thesis makes a contribution to addressing this deficit.

3.2.3 Rationale for multi-case study design and case selection

In particular, this research used the narrative multi-case study design (Wells, 2011, p. 18; Yin, 2009). In terms of this research, using case study design facilitates the understanding of the survival and development of private enterprises in the context of China’s property-development industry. This is mainly because “case study design allows for an intensive examination of a phenomenon in context” (Wells, 2011, p. 16).

The selection of case enterprises follows the purposeful sampling method: these three case enterprises were selected because they were able to provide in-depth information to achieve the research aim (Patton, 2002; Wells, 2011). Three major factors contribute to the selection of cases: the features of the city where the three case enterprises were located, the uniqueness of the three case enterprises in terms of the types of Chinese private enterprises, and the convenience in obtaining access to data. All three case enterprises were located in a regional city in a province in East China. This province has comparatively developed coastal cities as well as rapidly developing inland cities. This feature may reflect the transition process of China as a whole (Lin, 2002; Qian & Weingast, 1996). As this regional city is not a large city with many property developers, the entrepreneurs may be easily identified if their real names are used in this research. Therefore, for reasons of confidentiality, the exact name of this regional city is replaced with pseudonym, Local City.

Locating three cases in the same regional city was a deliberate attempt to make the analysis more meaningful. This is mainly because local government has significant influence on the establishment and development of private property-development enterprises. Local governments have flexibility in implementing policies, thus, having three cases in the same municipality makes the political and economic environment identical, which enables more meaningful comparison between the cases.

The second consideration when selecting cases was the uniqueness of the case enterprises. These three cases are different types of enterprises in China's property-development industry and each is unique. The first enterprise, given the pseudonym Yang's Property, was a private enterprise that relied heavily on personal networks with officials in an SOE. The second enterprise, given the pseudonym Wisdom Property, was a purely privately founded enterprise established by two architectural designers who were formerly employed in a state-owned institute. The third enterprise, given the pseudonym East Property, was privatised from a formerly collective-owned enterprise. These characteristics of the three cases may assist in addressing the research question, as they cover the majority types of private property-development enterprises in China. This selection is therefore consistent with Yin's (2009, p. 26) assertion that researchers should choose case(s) that will most likely illuminate the research questions.

Except for the uniqueness of cases, these three enterprises share the following similarities. They are all private property-development enterprises and have existed for at least five years. This time period may allow the study of two types of barriers: the threshold barriers they faced when establishing the enterprise and how they were overcome; and second, specific regulatory, financial, land-access, and internal barriers they confronted when implementing their initial property-development projects and how these barriers were overcome.

Convenience in obtaining access to data was the third major factor when selecting the cases and fits Yin's prescription regarding sufficient access to cases as an important selection criterion including access to interviewees, documents or records, or observations in the "field" (Yin, 2009, p. 26). Leading qualitative researchers have advocated this case selection approach. Stake (1995, p. 4) states that the "case study is not sampling research", therefore the primary role of case-based research is to understand this one case instead of understanding other cases through it. Given this primary role of case-based research, Stake (1995, p. 4) further argues that the first criterion for case selection should be the possibility of maximising what we can learn. Owing to time limits, it is practical to select cases that are easier to get to and are hospitable to research inquiry.

For this research, the key informants of the three enterprises are close friends of my initial contact, a person with whom I have a long-term personal relationship. With his help, it was easier to access the key informants, such as the entrepreneurs and government officials. The process of obtaining access to informants started with the preliminary informal interviews, which will be addressed in the following section.

3.2.4 Rationale for not conducting a comparative study

This research does not intend to compare the China's property-development industry with that in the West for the following two major reasons. The first is related to the purpose of this research. This research focuses on describing and explaining the process how Chinese private enterprises overcome barriers to survival and growth. The focus on private enterprises is related to its increasingly importance and contribution to economic growth. In particular, China's property-development industry provides an example and context for studying the China's private enterprises. As mentioned earlier, the focus on this industry is related to its uniqueness and also the relatively convenient access to the three case enterprises. Therefore, this research does not emphasise on comparing China's property-development industry with that in the West, rather, the analysis of the three selected case enterprise may generate indication and implication for private enterprises in other industries in China.

The second reason is related to the radically different economic context of China and the West, and the different development stages of China's and Western property-development industries. Property developers are likely to face different barriers under different economic context and they may use different strategies to overcome barriers. Simply comparing three Chinese property-development enterprises with general property-development enterprises in the West may generate limited analytical power. Roscoe (2008, p. 748), in discussing the comparative methods, notes "comparison extracts behaviours and beliefs from their meaningful context, thereby radically distorting them". Moreover, some factors regarding the strategies China's property developer used to overcome barriers may hardly be compared. Roscoe (2008, p. 748) notes that issues such as cultural traits may be in fact incomparable. Nonetheless, this research does not investigate the possibility of conducting a comparative study between three Chinese private property-development enterprises and the industry in

the West. This departs from the purpose of this research, to describe and explain how China's private enterprises overcome barrier to survival and growth in the context of property-development industry.

3.3 Data collection

In order to collect and process information on each of these case narratives, this research used those methods that could encourage informants to share their own experiences. The data collection process took the following steps: preliminary informal interviews, informant selection, obtaining ethics approval, and field trips. The following sections discuss each of these steps.

3.3.1 Preliminary informal interviews and accessing informants

My initial contact was familiar with all the three case enterprises and he was also a participant in two of them, therefore I firstly contacted him for informal personal chats and he explained many details about the case enterprises. Following that, I conducted preliminary informal interviews in January 2010 to gradually build the trust between the potential informants and me as a researcher. The purpose of these preliminary interviews was not to collect information for my research, but to meet and establish the contact with the potential informants who would be interviewed later for this research. These initial informal interviews were personal communications based on personal connections, which were conducted in the form of casual chats. Although this may sound uncommon to Western researchers, establishing contact with potential interviewees is vital in China, because it allows the gradual building of trust during interaction with me as a researcher and makes interviewees more willing to share their information because of the personal relationship it develops. I found it was also helpful in reducing the potential resistance from entrepreneurs when sensitive questions were asked in later interviews for this research.

In the preliminary informal interviews, I established initial contact with three entrepreneurs. One was changed later, because of the relatively limited access to other key informants in that case. Through the informal interviews, I obtained a general picture about two of these three enterprises and was able to feel confident about getting further access to both the entrepreneurs and other key informants in these two

cases. Thus, the informal interviews helped me in gaining access to information for this research.

3.3.2 Informant selection

This current research first identified the three entrepreneurs from the case enterprises and my initial contact as the key informants, because they were important in two aspects. First, they were the key sources of information. I recognised the three entrepreneurs and my initial contact as the “key actors or key insiders” based on Bailey's (2007, p.69) description of this approach. That entrepreneurs embedded in the enterprises were a good starting point for information about these businesses is obvious at the level of common sense because of the particular relationship between the entrepreneurs and enterprises they started. This approach also has significant scholarly support. At the level of high social theory, insights into the nature of this relationship can be deduced from Rawls' (1993) explanation of the relationship between individuals and community. He notes that individuals are in the community and embedded in the community, but they also encapsulate the community. In terms of enterprises, entrepreneurs are both embedded in and encapsulate the enterprise. Thus, the entrepreneurs' experience and their accounts of their enterprises are likely to be valuable for this research using the narratives of particular enterprises as the major source of information.

The second aspect in which these entrepreneurs and my initial contact were important was that they suggested and assisted me in obtaining access to other informants. According to Bailey, this is an ideal situation in which the key actors “helped the researcher gain entrée, establish rapport, provide explanations, and perform a host of other tasks” (Bailey, 2007, p. 70). My initial contact was the first interviewee. As he was very familiar with all three enterprises, he was able to suggest several potential interviewees who were identified as the potential informants on each particular case. Other than these informants identified before the field trips, further recommendations by either the entrepreneurs or my initial contact led to other interviews as well.

The number of informants was not a major consideration when selecting them. Instead, this research aimed at collecting information from key informants who have extensive knowledge of the company and its development. Wells (2011, p. 19) supports a similar idea: the number of participants selected should depend on factors, such as the purpose

of the study, the extensiveness of the data-collection effort, and the richness of data obtained. For example, some widely cited narrative papers involve *n* of one (Wells, 2011, p. 20). In this approach it is the quality of the information provided rather than the quantity of informants which is the key factor.

3.3.3 Obtaining ethics approval

This research obtained ethics approval from the University of New South Wales @ Australian Defence Force Academy Human Research Ethics Advisory Panel before the field trips. In each interview, I showed a copy of the participant information statement to the informant, detailing the participant selection and purpose of study, description of study and risks, confidentiality and disclosure of information, recompense to participants, and feedback to participants. Appendix 1 and Appendix 2 present the participant information sheet in English and Chinese, which were used in interviews. This research did not require a written consent form due to the potential sensitivity of this research and the political environment in China. In China, signing documents may make the interviewees feel they have legal obligations and they would be very conscious of what was discussed in the interviews. In order to maintain confidentiality, I informed each interviewee that their identity would not be disclosed in my research. I have kept the research participants anonymous and pseudonyms are used in the case narratives. In a general sense, not revealing the participants' information was to protect them under China's sensitive political environment.

3.3.4 Field trips

The fieldwork included two field trips. The first field trip including 18 in-depth interviews was conducted during June 2011 to July 2011; and the second field trip including 15 in-depth interviews was conducted during February 2012 to March 2012. The reason for a second field trip was to collect major information identified as missing after analysing the data from the first field trip. The six-month time interval between the first and second field trips also left me with reasonable time to understand what further information would need to be collected in order to clarify particular issues relevant to the thesis. During the field trips, I interviewed some key informants repeatedly to collect more information and follow up earlier discussions. This research used a list of interview questions as a guide, but the actual information collected rarely followed the

sequence and contents of the interview questions. The reasons for this are elaborated in detail later in this section.

During these two field trips, I was consistent in the way the interviews were conducted and how I presented myself. This consistency was seen as important because it could contribute to building and maintaining the trust between the key informants and me as a researcher. This research used qualitative research strategies, such as semi-structured interviews and documentary analysis. The use of semi-structured interviews was due to the flexibility to allow informants to raise their own topics and provide more information (Bailey, 2007, p. 100). This was important for this research because it relied heavily on the key informants' accounts. Their willingness to share more experiences and information was significant because of its impact on the thickness and richness of the case narratives that would be the key information base for this research. A less open approach to the interviews may have run the danger of limiting the quality of the information provided.

In order to encourage the informants' participation and eliminate their potential worries about me being a "spy", I purposefully started interviews by stating my aim of using the information collected for research only, not for commercial use. I also mentioned that informants would be kept anonymous in this research for the consideration of confidentiality. In addition to stating the aim of interviews clearly, I provided explanation of my research topic, including my main research questions. In doing this, I was following Bailey's (2007, p. 66) approach that providing more explanation about the research topic is a key strategy to "gain entrée". Bailey (2007, p. 66) further states that "the particular route one takes to gain entrée affects the rest of the research". I chose the route of building personal contact with key informants because of the importance of gaining their trust so they would be frank in interviews and available for follow up.

Bailey (2007, p. 66) argues that explaining who you are and why you are conducting the research may facilitate gaining entrée. By contrast, if the informant does not have a good understanding of who you are and why you are conducting the research, the chances of being denied access may increase greatly. Because this current research asked informants to reveal how they operated their enterprise, the possibility of denial

or withdrawal of access at a later stage was very real. Much care was therefore needed to establish and maintain trust, even though the entrepreneurs were met during the preliminary interviews for this research.

When doing fieldwork, I followed Stake's (1995, p. 44) suggestion of acting as a “naturalistic observer”. I attempted to be non-interventionist in the interviews so the emphasis was not put on what I thought or what hypothesis I wanted to test, but on observing and listening to the participants in each of the case enterprises. Therefore, during the interviews, I only used an interview guide, aiming at keeping the discussion on track. This interview guide included general open-ended questions to allow informants more opportunities to make contributions. Informants’ responses to these open-ended questions form a significant part of this research. This accords with Patton's (2002, p. 21) guide to *Qualitative Research and Evaluation Methods*, which argues that open-ended questions allow researchers to understand the research topic from the respondents’ points of view. It also takes account of Lofland’s finding that “to capture participants ‘in their own terms’ one must learn their categories for rendering explicable and coherent the flux of raw reality”. This implies that an open-ended interview method is “the first principle of qualitative analysis” (Lofland 1971, p. 7). For this research on how China’s private property-development enterprises overcome barriers to success, this openness was vital because it was anticipated that these key informants would explain their accounts in ways that could only be understood if their whole approach could be captured.

Following a similar logic to encourage the key informant’s participation, during the actual interview process, I did not ask interview questions in the order listed in the interview guide. Instead, the sequence of asking questions depended on the progress of the interview. I only asked a question if I thought it was suitable in the context of the flow of interview. This means that questions in the later part of the interview guide could be asked earlier if the conversation moved in their direction. Some questions were skipped if the informants had already addressed the question in earlier answers.

Interviews were conducted in a casual way, and I presented myself not only as a listener but also a “learner”. This had the advantage of encouraging key informants because they felt their experience was being valued and they were being treated with

respect. As Bailey (2007, p. 103) notes, interviewing is not just a matter of asking questions, it requires active listening. Being an active listener may lead to good follow-up questions, as follow-up questions are usually not planned in advance, they are only asked when the researcher senses the need for them (Bailey, 2007, p. 103). In fact, many follow-up questions were asked based on the previous information provided by the informants.

My idea of presenting myself as a “learner” instead of a researcher to the key informants arose because of the material on the presentation of researchers in the research methods literature. Fontana and Frey (2005, p. 707) note that the presentation of researchers can leave “a profound impression on the respondents” and have “a great influence of the success of the study”. In the interviews, after I presented myself as a learner and showed my willingness to learn from the informants, they were noticeably encouraged to disclose more information in order to enrich or justify their own view of the operations of their particular enterprise.

An issue of particular relevance in the Chinese context arose as I worked through the first field trip. After several interviews, I realised that some words seemed to be very sensitive to the informants. For instance, informants were reluctant to call the interview an “interview”, but they were happier to call it a “casual chat”. This was the case even though the nature of the “casual chat” was really an interview process, in which I made use of a schedule of questions and took notes. Thus, in the later interviews, I stated my purpose as previously; however, I avoided the word “interview” and used “casual chat” instead, and I found that informants were more willing to share their own experience. It seemed to me that informants thought they would not create responsibilities or obligations when chatting casually, but in an “interview”, they would be unable to talk about some politically sensitive issues. Interviews usually lasted for 1.5 to 2.5 hours, and I always concluded them by asking the informants to suggest more informants.

An additional element to create a relaxed and trusting situation was being very flexible in the timing and venue of interviews, because the informants were too busy to commit to a more formally planned interview. Most interviews were conducted in the informants’ offices at an agreed time. However, during the fieldwork, I did not

have control over some aspects of the research. For instance, several informants were very busy in the office during the interviews; they took phone calls and responded to their subordinates. I showed patience by waiting. This also gave me an opportunity to observe the informant in the work environment and to refine the questions I was going to ask. In one instance with the entrepreneur of the third case enterprise, with a pseudonym of Kong, it was very difficult to make a fixed time for interviews. Even though I had made an appointment with him, he then changed the time and finally cancelled the appointment after several changes. Because of the importance of his information, I kept contacting him and was told that he only had one hour in the early morning before his meeting. Therefore, I decided to make the interview at 8.00am, and the venue was a quiet park near his apartment, where he did his morning exercise. I thought carefully about the arrangement for this interview before confirming, taking into account issues of the convenience, distractions, and noise level (Bailey, 2007, p. 104). Conducting interviews in his morning exercise time may not be an optimal arrangement. But the entrepreneur was happy to make that time available and was more forthcoming than might have been the case at his office, where he would be distracted by phone calls and other work-related issues. In particular, the park near his apartment was very quiet. In this relaxing environment, the chance of disclosing more information seemed to be higher.

As mentioned earlier, the key informants were important in assisting me gaining access to other relevant informants. For example, the entrepreneurs from the second case enterprise, Wisdom Property, introduced me to the Deputy General Manager who was mainly responsible for the daily management of the company. The usefulness of gaining access to other informants through key actors was discussed earlier. However, it is worth noting that there may also be drawbacks in relying heavily on key actors. The first drawback is that key actors' own perspectives may influence the research subjectively. The second drawback is that the researcher may be isolated from other actors of the setting (Bailey, 2007, p. 71).

This research therefore took some measures to reduce the potential impacts the key actors could have on other informants. This follows the methodological insight that while key actors' perspectives are very important for this research, they are not necessarily superior to those of any other actors (Bailey, 2007, p. 70). I also interviewed

other informants to confirm information provided by key actors. In these cases, the role of key actors was restricted to introducing me to other informants. They then withdrew and other informants were interviewed alone, because the presence of key actors may affect the response of other informants. For example, in terms of Wisdom Property, the General Manager recommended and introduced me to the Deputy General Manager. I then conducted the interview without the General Manager's presence to reduce the potential impacts the entrepreneur's presence may have on the Deputy General Manager. I found this method was useful in establishing a more relaxed environment for the Deputy General Manager to share information with me, as he did not need to worry about whether his accounts were different from his superiors.

During the fieldwork, I also collected other relevant materials, such as organisation documents, newspaper articles, official documents, and statistics. These relevant materials proved helpful in providing the background information on these enterprises. They were also useful in understanding the operation of these enterprises in order to further analyse barriers these enterprises have met and relevant strategies they used to overcome the barriers. Many of these documents were not public and the trust established during the interview process was significant in being able to collect them.

3.3.5 Note taking and information recording

I relied heavily on written notes to keep records of interviews. No tape or audio recordings were taken. This is because, in China, most research dealing with social and political issues is regarded as sensitive (Heimer & Thogersen, 2006, p. 263). It was anticipated that this research may be deemed to be sensitive by the participant enterprises in China and this was born out in the preliminary interviews. The second reason is that China's cultural environment is relatively politically sensitive. Heimer and Thogersen's (2006, p. 35) book on doing fieldwork in China mentions a similar data collection approach. They conclude that conducting interviews without audiotape or written consent forms may be helpful in allaying fears, especially when investigating a sensitive topic (Heimer & Thogersen, 2006, p. 35).

Note-taking in this research was done in three ways: the written notes were taken during interviews; extensive notes were made immediately after interviews; and self-tape-recorded reflections were made soon after particularly significant interviews. The

content of notes was influenced by insights from Lofland and Lofland (1984) and Bailey (2007). Lofland and Lofland (1984) give detailed instructions on keeping good fieldnotes and Bailey (2007) discusses the content of fieldnotes further, based on Lofland and Lofland's (1984) work. Lofland and Lofland (1984) identify six types of material usually included in the fieldnotes: detailed description; things previously forgotten; analytic ideas and inferences; personal feelings; things to think about and do; and reflective thought. Initially, I tried to write everything down during the interviews. I found, however, that this meant I concentrated too much on note-taking to keep eye contact with the informants, which was needed to encourage disclosure of information. Therefore, I had to change my practice. I created some of my own shorthand, and only wrote down the key phrases. I noted important milestones such as specific dates, writing out short quotations and notes on expressions as well as tone of voice of informants. When taking notes, I distinguished the information provided by informants, their changes in expressions, and my own thoughts, especially on issues I felt unclear or suspicious about.

Immediately after the interviews, I wrote extensive notes by linking the key phrases and other information from the notes of the interviews. Owing to the time restrictions during interviews, I recorded some information by using key words, key phrases, or my own shorthand. These were expanded and recorded in detail in the extensive notes made immediately after each interview. During this process, I considered who should be contacted to obtain more information or confirm the validity of information. I also noted information missing from the fieldnotes that I would like to go back and collect. When writing up extensive notes for the first two interviews, I attempted to write them out in full detail. However, I realised this was too time-consuming. Thus, in some cases, I tape-recorded myself to save time and ensure that important information or notes could be traced later. I tried to keep as much information as possible in the extensive notes and tapes. By doing this, I left myself the possibility of identifying the usefulness of information later, when I had more information from other sources.

However, there were limitations with these note-taking and information-recording methods. It was impossible to write down every single word during interviews. Even though this research used extensive notes and tape-recorded personal comments to cover most information, there could still have been missed points and insufficient

information. This limitation was noted before doing the initial fieldwork, so I planned a second field trip. In order to notify the informants about the possibility of repeated interviews, at the end of each interview, I mentioned the possibility of missing information and the likely need for follow-up interviews; all informants agreed that they would be available for further discussion.

During the six-month interval between the two field trips, I contacted some informants by phone. However, I found phone calls were rarely suitable for long interviews. They were, however, used to confirm details such as the exact year of an event mentioned in the previous interviews. During this six-month period, I also identified missing information and used this as guidance for the second field trip.

3.4 Data interpretation and analysis

For this research, data analysis was conducted throughout the data collection process. This accords with the idea that data analysis in the narrative approach can be best described as a progression, “an ongoing process, not a one-time event” (Erlandson, Harris, Skipper & Allen, 1993, p. 111). This fits with more general insights into qualitative data analysis strategies in which scholars have stressed the importance of gradually building understanding throughout the research process (Creswell, 2007; Erlandson et al., 1993; Huberman & Miles, 1994; Madison, 2005; Wolcott, 1994). Creswell (2007, p. 149) compares the analytical strategies suggested by Madison (2005), Huberman and Miles (1994), and Wolcott (1994), and concludes that there are variations among the qualitative analytic strategies, but there is a general process that most qualitative researchers follow to make in-depth analysis possible (Creswell 2007, p. 148). This current research requires substantial details of the entrepreneurs’ and companies’ development to study what actual barriers they have met and how these barriers were overcome. In common with the general process of research for which narrative accounts are suitable, this research cannot be reduced to coding and frequency without losing the depth required to address the research questions.

A particularly important point of difference for case study research is that its data analysis includes making a detailed description of both the case and its setting (Creswell, 2007, p. 163). Similar to multi-case study, this research followed the two stages of analysis– the within-case analysis and the cross-case analysis (Merriam, 2009, p. 204).

For the within-case analysis, each of the three cases was treated as “a comprehensive case in and of itself” (Merriam, 2009, p. 204). In line with the case study research methods discussed by Mills, Durepos and Wiebe (2010, pp. 970–971) in the encyclopaedia of case study research, the within-case analysis provides an in-depth exploration of a single case to reach in-depth understanding and description of the case. Therefore, it is difficult to separate the within-case analysis from the description of the cases.

This current research spent much time on organising the narratives and making sense in each case. This is consistent with the interpretive process explained by Chase (2005, p. 663), which starts with “narrators’ voices and stories”. As mentioned, I took fieldnotes when doing fieldwork. After every interview, I made margin notes in the fieldnotes. In addition, I also made a more detailed account of the interview and self-recorded reflections on the interviews. When fieldwork was completed, I first read the fieldnotes several times, and then organised data based on the development of each enterprise. For each enterprise, the case narrative included information from interview notes, documents collected, and other supporting documents.

As was the case with Chase's (2005, p. 663) work, organising these narratives according to each case enterprise may be seen as a move away from the traditional theme-oriented analytical method. I decided on this shift after my initial attempt to organise case narratives based on barriers identified from the literature in Chapter 2 as likely to impact property-development enterprises in China. Initially, I classified data into broader categories to establish the themes that run through all the cases. However, because this research aims to identify the barriers China’s private property-development enterprises met and understand the process by which they overcame these barriers, the three selected cases needed to have sufficient depth to understand how they survived and developed under China’s general economic and political environment.

This, in turn, meant it was difficult to separate the themes, such as different barriers, networking, and managerial capacities, from actual narratives of the property-development projects and the companies’ development. Therefore, the case narratives are organised separately, based on each company’s history and property-development

projects. Chapters 4, 5 and 6 present the case enterprises with each chapter organised in chronologic order.

When reading the field notes, I realised that not all the information was related to this research, though some data seemed to be interesting and useful for separate and new research topics. A significant issue has been maintaining focus on the data relevant to this research. In this regard, I was guided by Stake's (1995, p. 84) point that it is important to identify the best data and "it also is important to spend the best analytic time on the best data". For the purpose of this research, I sought to identify and focus on the key issues instead of attempting to give full coverage and equal attention to all data.

In summary then, in the enterprise narratives at the core of this research, the focus is on the case narratives themselves to explore the specific difficulties these case enterprises met and how they overcame the difficulties. After completing the case narratives, this research identified key words and phrases from the key informants' comments about the methods case enterprises used to overcome specific barriers. These key words further formed the themes and subthemes and they were compared across the three case narratives to identify similarities and differences.

3.5 Validity, reliability and generalisability

In establishing the legitimacy of research, it is important to identify possible areas where it might fail. This research as qualitative research is most likely to be challenged in terms of validity, reliability, and generalisability. As Bailey (2007, p. 179) suggests, the definition of validity, reliability, and generalisability seem to be very straightforward, but on further inspection, these concepts are actually very complex. When discussing validity, reliability, and generalisability for this thesis, my focus has not been on the different classification of definitions for them, but on the strategies I have used to enhance the validity and reliability of this research by referring to existing literature.

Yin (2009, p. 42) suggests three tactics to increase construct validity when doing case-based research. The first tactic is to use multiple sources of evidence when collecting data. The second is to establish a chain of evidence, and the third tactic is to have key informants review the draft case study. Yin (2009, p. 45) also points out that making as

many steps as operational as possible and conducting research as if someone were looking over your shoulder is suitable as a general method to address the reliability problem. This current research collected evidence from multiple sources, such as the in-depth interviews with key informants, company documents, and newspaper articles. In follow-up interviews, I also asked key informants questions to ensure my records were consistent with their own perspectives.

Research methodology literature also notes that triangulation protocols can be used to gain confirmation, to increase credence in the interpretation, and to show commonality of an assertion (Stake 1995, p. 112). Denzin (1970, p. 301) defines triangulation protocols as data triangulation, investigator triangulation, theory triangulation, and methodological triangulation. For data triangulation, Denzin (1970) argues that data triangulation mainly targets the data sources, which means researchers search for as many different sources as possible. In this research, data source triangulation has been used to confirm information. For example, as mentioned earlier, different players in one event were interviewed. Information from relevant company documents, newspapers articles, and company websites was also collected and compared with interview information. Data triangulation in this research confirmed with the prescription in the literature, in that it provided the opportunity to check whether the information collected under different circumstances or from different people told a consistent story (Stake, 1995, p. 113).

In this research, when there was variation of responses to the same question, triangulation was done to confirm the information and to ensure the construct validity and reliability of data. For instance, when collecting data for the first case enterprise, Yang's Property, Yang, the entrepreneur, noted that his elder brother, Guang Yang, did help him during the initial establishment period, but not in the development period. He also stated that the survival and development of his enterprise relied heavily on his own thoughts and skills. For example, he stated that he used his personal networks to obtain access to land. Thus, he claimed that his brother had little effect on the development of his enterprise. However, when I asked him the source of start-up funds for his enterprise, he was reluctant to answer. Then, I changed the way of asking the question to "Could you please tell me how you obtained the first piece of land to develop?". His answer was very short, "My brother helped a bit during the process"

(Yang, Interview, 01/07/2011). My concern was to find out the importance of his first property development, because another entrepreneur had mentioned in his interview that the first development played a vital role in the success of private property-development enterprises (Tang, Interview, 05/07/2011). Yang addressed the significance of his first property development from several aspects. The first and most significant was that the first property development gained him the finance for the following developments. The second was that he learned the operation of the property-development industry, including the way to deal with government departments, construction teams, and consumers, from his experience in the first development. The third was that he realised the importance of building design as a result of a failure of one of his projects. To me, as an outsider, Yang's first property-development project seems to have laid the foundation for his future development. But his reluctance to talk about his brother's help in relation to his first property development caught my attention.

After the interview with Yang, I contacted his brother Guang Yang and Guang Yang's wife, Wong, separately for interviews. I did not mention the interview content with Yang. During the interview, Guang Yang clearly discussed how he helped Yang to obtain access to the first piece of land and other pieces of land later. In her separate interview, Wong confirmed the information I obtained from Guang Yang. However, I felt the similarity of a couple's responses to my questions might reflect a shared view rather than an independent validation. Therefore, I planned to interview another person who participated in the events to find out whether there was variation in information. This person was Ming, who helped to obtain the land. When he was interviewed he detailed the process and confirmed Guang Yang's importance in obtaining the land for Yang. So it seems that Yang was inflating his own role and diminishing the help he received in his account of the success of his enterprise. This is not unusual and other researchers in the field of entrepreneurship found that entrepreneurs are more narcissistic than individuals with other vocations (Mathieu & St-Jean, 2013). This process of checking the accounts of the entrepreneurs against those of others with detailed personal knowledge was followed in each of the cases.

This is only one example of how I confirmed information during the firework. This data triangulation in Denzin's (1970) and Patton's (2002) sense, not only included

different informants but also included different data sources, such as opened-ended interviews, focus interview, and document analysis. In this research, I collected information from different sources, such as interviews, company documents, and newspaper articles.

Another strategy to increase the validity of qualitative research is to have peer debriefing and expert reviews (Bailey, 2007, p. 188). In Bailey's (2007, p. 188) view, peer debriefing is a process of having frequent discussions with a colleague, committee members, or friend. Expert reviews, as the name suggests, include seeking advice from someone who is unfamiliar with the research topic, someone who has published on the subject. This current research received comments from my supervisors, participants in the 2013 Australian and New Zealand Academy of Management (ANZAM) Conference, and 2014 Australian Centre for Entrepreneurship Research Exchange (ACERE) Conference.

3.6 Limitations of the research

This research has several issues in common with the case study method in terms of its possible limitations. The first is the problem of generalisability. The second is that reliability and validity can never be perfectly guaranteed (Merriam, 2009, p. 51). The third is that restrictions of time and money limit the depth of description and analysis.

In particular, a case study approach is more likely to be deemed a poor basis for generalisation, as only one or a few cases are studied (Stake, 1995, p. 7). In this research, however, the case narratives do not aim at generalisation, but at particularisation. In this research, in-depth study of the uniqueness of each case enterprise was a more important task than generalising an entrepreneurial style that could apply to other enterprises (Gartner, 2004, 2008, 2010). Gartner (2008, p. 359) studied variations of entrepreneurship and concludes that variation is “a fundamental characteristic of entrepreneurship” and the phenomenon of entrepreneurship is “a struggle with seeing how many different ways that different kinds of individuals, in different settings, could start different kinds of business”. In this sense, my research is contributing to the understanding of how a group of entrepreneurs with similar and/or different backgrounds overcame different barriers to survival and development in the context of China's burgeoning property-development industry. To do this, a deep and holistic

approach based on thick and rich data was required. Such an approach may expand the understanding of how private property-development enterprises survive and develop under the complicated social environment in China.

Another limitation for this research is subjectivity. Stake (1995, p. 44) notes that qualitative inquiry is subjective by nature. Although it is argued that subjectivity is an essential element of understanding, it may also become a weakness that needs the researcher's attention. As Stake (1995, p. 45) states, the phenomenon studied by qualitative researchers usually takes a long time to materialise and may change even during the time of the research. Therefore, qualitative researchers often need a long time to thoroughly understand what is going on. The work then tends to be labour intensive and costly.

Being a PhD student, both time and funds were restricted for this research. In order to counter this problem, data collection and fieldwork were carefully planned and conducted. For example, as mentioned in Section 3.3, initial contact with case enterprises started in early 2010 as preparation for this research, which was helpful in assisting me identify the research questions and important interviewees for the formal fieldwork. Formal fieldwork included two field trips with an interval of six months. This allowed me to confirm information with informants and collect extra information needed. Moreover, telephone contact helped address particular questions as they arose. This multi-pronged approach helped overcome some of the limitations of time and money.

3.7 Summary

This chapter has discussed the research design and research process. This research selected three case private property-development enterprises from the same regional city with the pseudonym of Local City, because of the uniqueness of the three cases and the relative convenience of access. Preliminary informal interviews were conducted in January 2010, which assisted in gaining the entry to data. This also allowed me to start building trust in these preliminary informal interviews which contributed greatly to my ability to collect information in formal field trips later.

The fieldwork included two formal field trips to firstly collect new key information and also to collect information missed earlier. During this process I developed an understanding of how to use data collection methods that would encourage the informants' participation, especially through semi-structured interviews. During the fieldwork, I also collected other important information such as company documents and newspaper articles.

Owing to the case selection method, it was always clear that there would be limits to the generalisability of the findings of this research. This does not mean that any finding could not be useful in deepening the understanding of the barriers China's private property-development enterprises have met and strategies they have used to overcome these barriers, which are the core issues of the case narratives.

The next chapter presents the first case enterprise for this research, Yang's Property. As mentioned, Chapter 4 follows a chronological order which starts with the examination of the entrepreneur's personal and career development before he established Yang's Property. Each property-development project is addressed to investigate what strategies the entrepreneur used to eliminate the barriers.

Chapter 4 Property-development case 1: Yang's Property

4.1 Introduction

The general focus of this research is the issue of survival and growth of private enterprises. The specific research question is how private property-development enterprises in China survive and grow in the business environment where many of the preconditions for successful enterprises noted in international research are absent (Zapalska & Edwards, 2001). In order to investigate this more specific issue this research poses, the question becomes: how have China's private property-development enterprises overcome barriers to survival and growth?

Chapter 2 provided the background to China's private sector and property-development industry. It also identified the general and particular barriers to China's private property-development enterprises. The general barrier is the tension between the market-oriented nature of the property-development industry and the characteristics of China's commanding economy (Huang, 2004). The particular barriers included land-access, financial, and internal management barriers. The cases will provide illustration of the central themes identified in the entrepreneurship literature in Chapter 2.

Chapters 4, 5 and 6 investigate how the three selected private property-development enterprises used business strategies to overcome various barriers to success. These narratives are important because they embody and provide us with insights into "what is possible and intelligible within a specific social context" (Chase, 2005, p. 667). This chapter considers the case of Yang's Property, a private property-development enterprise named after the entrepreneur, Yang.³ In many ways, Yang's story is the story of modern China, as people take opportunities presented by China's economic reforms (Tzeng, 2008; Young, 1995; Yueh, 2011). Since the late 1970s, the Chinese government gradually allowed the re-emergence of private business (Naughton 1996, p. 157). The change of policy toward private business created the possibility for people to establish their own enterprises in various industries. Many people who tried to take up the

³ For reasons of anonymity, the names of individuals, organisations, companies, and places are all pseudonyms.

opportunity failed, however Yang managed to succeed and his story may be illustrative of the factors for the company's survival and growth.

This chapter starts with introducing the company profile and explaining how I as a researcher obtained access to the key informants of this case. It then discusses Yang's personal development and his work experience prior to establishing Yang's Property. Yang's strategic choice when managing his property-development enterprise to overcome barriers may inherently reflect his previous work experience and background (Child, 1972; Hambrick & Mason, 1984; Peng & Luo, 2000). Next, this chapter provides a chronological case narrative to illustrate Yang's response to various barriers in relation to the key themes found in the international literature. These key themes include personal development, networking, flexibility, innovation, product quality, and entrepreneurial strategies, as summarised in Table 4.7 in the end of the chapter.

4.2 Company profile of Yang's Property and key informants of the case

Yang's Property was established in 2003 by the entrepreneur with the pseudonym, Yang. As summarised in Table 4.1, in 2011, when the fieldwork was conducted, Yang's Property had 30 full-time employees. By 2011 when the fieldwork was conducted, Yang's Property had developed five housing projects. This chapter will address the barriers Yang's Property met in each project respectively in later sections.

Table 4.1 Company profile of Yang's Property

Year of establishment	Number of projects by 2011	Number of employees	Annual revenue of the past five years
Formally established in 2003 after a previous property-development enterprise being stolen by business partner.	5	Around 30 full-time employees.	Unstable. The annual revenue depended on whether there was a project.

Very little information about Yang's Property was publicly available. The company did not have its own website. No autobiography of the entrepreneur, Yang, has been written. Starting from a more realistic standpoint, the only and best way to obtain information appeared to be talking to key informants. In 2010, one of personal contacts in the property-development industry introduced me to Yang's elder brother, Guang Yang. As mentioned in Chapter 3, at the beginning of 2010, I had initial casual personal communication with Guang Yang. In 2011, I formally conducted the first field trip. Due

to the very close relationship between my personal contact and the key informants, I was able to collect information that was not publicly available.

In this chapter, I rely principally on the accounts provided by Yang's elder brother, Guang Yang (Interview, Guang Yang, 29/06/2011, 18/07/2011, 19/07/2011, 10/11/2011, 10/02/2012, 01/03/2012, 06/03/2012) and Yang (Interview, Yang, 01/07/2011, 21/02/2012), because the key participants such as Yang and Guang Yang were involved in the process of overcoming barriers to business success. Most probably, only they could describe and explain what barriers they met and how these barriers were overcome. Therefore, their information would be the most valuable and relevant information to this current research. In addition, this chapter also considers government policies, and contemporary media reports from provincial and local newspapers. For reasons of confidentiality, the full reference for contemporary media reports cannot be given, although the substance of the reports providing an objective opinion can be established. These key informants included:

- Yang, Managing Director of Yang's Property. Yang was the company owner and in charge of Yang's Property.
- Guang Yang, Yang's elder brother, former General Manager of Total Industry & Trade (TIT). Guang Yang assisted Yang in moving to the central district and assisted him in obtaining land for several projects.
- Cai, former Director-General of Local City Construction Committee. Cai was critical in obtaining the licence for Yang's Property.
- Liu, Secretary of the Local City Bureau of Planning. Liu helped Yang increase the plot ratio of one of his projects.
- Ming, former secretary of the Party Committee in Century Group. Ming contributed to resolving the conflict between Yang and former residents.
- Wong, Guang Yang's wife, former accountant of TIT. Wong witnessed the development of Yang's Property and she was important in initiating and maintaining the network with Shi, the General Director of Century Group.
- Xia, General Manager of Yang's Property. Xia was in charge of the daily management of Yang's Property.

4.3 Yang's personal development between 1977 and 2003

It is worth noting that a significant part of the success of Yang's company seems to relate to his ability to overcome the barriers in setting up his enterprise and his ability to adapt to changes as economic and political situations altered. In this sense, Yang's experience of accumulating market knowledge and the flexibility he acquired through working for different organisations may have affected his own understanding when dealing with the barriers that occurred during the development of his own enterprise.

In particular, between 1977 and 2003, Yang gradually accumulated market knowledge through his personal development and work experience. Figure 4.1 is the timeline showing Yang's personal development the projects conducted by Yang's Property. Table 4.2 summarises the key events of Yang's personal development during this period. It shows the process of Yang's transition from a normal villager, moving to a developed central district (Baojiang District), being exposed to business activities, to working at several management positions in Century Group, a large SOE. Knowledge of the market and operation of companies he learnt during this period was useful in enabling him to identify barriers faced by enterprise and to apply appropriate strategies to overcome these barriers, rather than having to make the same mistakes others had already made. This may also have significant impact on his response to barriers when he established his own company. This chapter addresses each event respectively.

Figure 4.1 Timeline of Yang's development and projects of Yang's Property

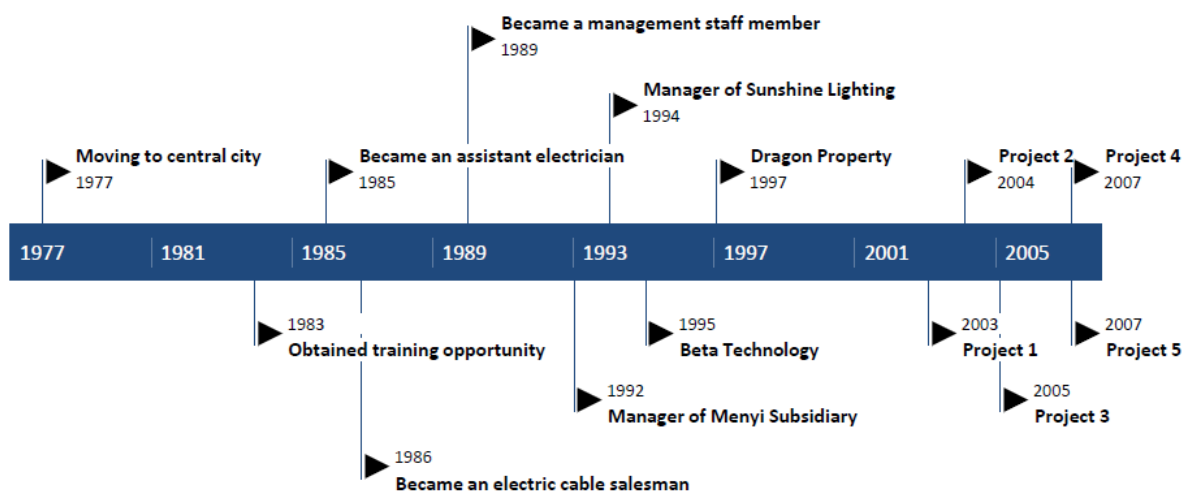


Table 4.2 Yang's personal development during 1977 to 2003

Year	Location and company	Yang's key activity and/or main responsibility
Yang's early years	His home village where has few business activities	Assisted his mother in her grocery store
1977	Moving to central city, Baojiang District	Yang attended junior school
1983	Baojiang District, Yang's home village	Failed to attend high school in Baojiang District and was sent back to his home village
1983	A village near to Yang's home village	Grew and sold vegetables
1983	Baojiang District	Obtained training opportunity through his father
1985	Baojiang District	Became an assistant electrician with Guang Yang's help
1986	ABC Cable Company in Baojiang District	Electric cable salesman with fixed salary
1986	Fort Cable in Baojiang District	Electric cable salesman with salary based on performance
1989-1991	Part-time work Shuntai Subsidiary of TIT	Supplying plastic packing barrels to TIT A management staff member, then became the manager of Shuntai Subsidiary
1992-1993	Menyi subsidiary of TIT	Manager
1994-1995	Sunshine Lighting Equipment of TIT	Manager
1995 onwards	Beta Technology	Yang's first attempt to set up his own business
1997	Dragon Property	Yang owned 40% of the company and mainly was responsible for managing Dragon Property

Sources: Interviews with Yang (01/07/2011, 21/02/2012), Interviews with Guang Yang (29/06/2011, 18/07/2011, 19/07/2011, 10/02/2012, 01/03/2012, 06/03/2012).

In the words of Guang Yang, Yang's elder brother, Yang's business orientation appeared in his early years (Interview, Guang Yang, 29/06/2011). Guang Yang recalls:

Our mother had a very small grocery shop in our home village. At an early age, Yang started to help mother sell products. Although he was very young, he could calculate the accurate amount of change that should be given to customers (Interview, Guang Yang, 29/06/2011).

In an undeveloped market such as rural China, even this slight experience and role model of Yang's mother gave him a great advantage, because so many children growing up in the 1970s had no experience of business activity. However, Yang's

home village was too poor and under-developed to provide Yang with more education and job opportunities. In Guang Yang's view, moving to a more developed city was the way to more education and job opportunities, which could even change one's entire life (Interview, Guang Yang, 10/11/2011).

4.3.1 Moving to central city

In 1977, Guang Yang, took eight-year old Yang to attend primary school in Baojiang District, the central district of Local City (Interview, Guang Yang, 29/06/2011). Baojiang District was the economic and political centre of Local City. Although in the 1970s, there was no established commercial atmosphere in Local City, Baojiang District still had better potential and opportunities for establishing an environment for business activities. Guang Yang thought this move was fundamental to the opportunity for Yang to learn about market activity and business operations because there was little or no market development in his home village (Interview, Guang Yang, 29/06/2011). In 1977, Guang Yang obtained an entry-level position as a quality examiner in Century Group and he decided to bring Yang with him to Baojiang District of Local City. Century Group was a large pharmaceutical SOE located in Baojiang District, and one of the largest SOEs in Local City (Century Group, 2010).⁴ Guang Yang recalls that:

Being able to work in Century Group used to be a great honour for people in Local City, as Century Group's employees received a higher salary and better welfare compared to other companies (Interview, Guang Yang, 29/06/2011).

However, life was extremely difficult for Yang and Guang Yang. They lived on Guang Yang's low salary of only RMB 20 (approximately US\$3.20) per month. Even in this situation, Guang Yang insisted on keeping Yang with him instead of sending him back to their home village, as he believed that Baojiang District could offer Yang better education and job opportunities in his later life (Interview, Guang Yang, 29/06/2011). Guang Yang was more like Yang's father than an elder brother, as he took care of Yang's life and studies. This brotherhood continued in Yang's later life and career pursuit.

⁴ To maintain the anonymity of the company, the exact name of the company and website is not given.

Nevertheless, Yang's early years did not indicate he was likely to become a successful businessman. Yang did not score highly enough at junior school to attend high school in Baojiang District, so he decided to go back to his home village (Interview, Guang Yang, 29/06/2011). In 1983, Yang met a huge obstacle in his life. When he returned to his home village, his parents refused to accept him, as they believed that his lack of success at whole was due to lack of effort and there should not be any excuses for being lazy in study (Interview, Guang Yang, 29/06/2011). Although Yang's parents did not want to help Yang any more, Guang Yang did not reject him, because Guang Yang was thinking about how he could get his family into the next wave of opportunities in China resulting from the economic reforms. This again showed the brotherhood of Guang Yang and Yang.

Guang Yang's persistence in assisting Yang was an important factor, however, Yang himself was patient in the face of hardship. In order to make a living, Yang started to work. He first went to a nearby village to grow and sell vegetables. Growing and selling vegetables were considered low-status activities even in Yang's home village. He may also have had to put up with gossip from the villagers about his incompetency in failing to stay in Baojiang District.

Yang's father thought that growing and selling vegetables would not be an appropriate job for young Yang. His father then helped him to obtain the village's only position in the allocated quota to study electronic product manufacture in another town (Guang Yang, Interview, 29/06/2011). As Guang Yang explained it, Yang's father used to be Village Mayor, and it is likely that his authority in the village helped Yang return to the more developed city for this training opportunity (Interview, Guang Yang, 29/06/2011).

This training opportunity was valuable to Yang. Knowledge of electronic products was helpful for Yang's job prospects and gave him a second chance to take part in China's new opportunities. In Guang Yang's and his wife Wong's views, this period of hardship growing and selling vegetables had a positive effect on Yang's personal traits, such as being optimistic when facing obstacles and actively seeking solutions to obstacles (Interview, Guang Yang, 29/06/2011; Interview, Wong, 19/02/2012).

In 1985, after Yang completed his study in electronic products, Guang Yang helped him obtain a job as an assistant electrician in one of Baojiang's construction companies. Although this job was very laborious, it was a useful experience for Yang because it was the first time he had to deal with clients in a real business context. He began to learn how business people communicate with each other, which was new to a young man from a poor village with little business development (Interview, Guang Yang, 29/06/2011).

After working in the construction company for one year, Yang moved to the ABC Cable Company and worked as an electric cable salesman (Interview, Guang Yang, 29/06/2011). This was made possible by an introduction from one of Yang's clients in the previous construction company. The client recognised Yang's affinity with and enthusiasm for electrical work, so he trusted Yang to perform well in the salesman position. However, Yang did not stay at ABC Cable for long, as he was not satisfied with its salary system. In particular, Yang received a fixed salary, and his income was not linked to his sales performance. This meant that although he achieved a relatively good sales performance, he did not receive any more income than salesmen with worse sales performances. Yang felt he was a good salesman and wanted to seek a position in a company where part of the salary would be based on his sales performance (Interview, Yang, 01/07/2011).

Yang seemed to have a more market-oriented concept about his salary than other salesmen and employees. In that time, most workers in Local City received fixed salaries. The pursuit of a more performance-based salary stimulated Yang to find an employer who could offer him a better salary. Another contributing factor to Yang's rapid job change was poverty. Like many other young people from villages, for Yang, poverty may simultaneously be a significant barrier limiting development and a great stimulator for career advancement. At that time, living in cities was itself an enviable thing for many people lived in villages (Interview, Guang Yang, 10/11/2011). This was because cities were more developed with more opportunities than villages. However, people who were in a similar situation to Yang faced huge life pressure as well pressure to make progress in his career, with no financial resources to fall back on. Their only choice was to find a job to support their basic necessities of life in the city.

In order to continue to live in the city and seek more opportunities, changing jobs might be the only means of seeking a better income. On the other hand, Yang's experience of working as a cable salesman may indicate one of his other personal traits. He was not satisfied with the status quo and always sought change and improvement. This personal trait may also have contributed to his later decision to establish his own business. Yang's increasing experience as he moved from having the outlook of being a farmer, whom most people would see as an unambitious villager, to being a salesman in cable companies may also indicate that his ambition and his clearer business sense provided motive for advancement. The path for advancement became more obvious to him as he gained more experience and made the decision to seek more income based on his sales performance. This may imply that Yang was less risk adverse and more confident of his ability to succeed than many of his contemporaries. From Yang's experience, he was not always a person who succeeded. However, his chances were improved by his persistence. Later this was a factor that made his business work. It was not being brilliant, but being persistent, keeping it going and doing the job every day that became part of Yang's way of doing things.

In 1986, Yang moved to Fort Cable to work as an electric cable salesman, where part of his salary was based on his sales performance. Two aspects of Yang's experience of working as an electric cable salesman and this part-time work were useful for the formation of his later business strategies to overcome barriers. First, during this period Yang had his initial insights into the market and business operations and he started to understand the market. This was very important for a person from a village, as in China, people from rural areas have very few opportunities to learn about how a modern industrial market works. This market knowledge laid the foundation for Yang's future career development. Working at Fort Cable also gave him such essential skills as communication skills through serving clients in the construction company and promoting products to customers of Fort Cable.

The second reason why the experience was helpful was that Yang established his own sales channels and business connections with several clients. The business connection with these clients ensured his sales performance and, as a result, his income. This came about because of the additional part-time work he did during this

period, supplying plastic packing barrels to TIT, where Guang Yang was then the Deputy General Manager (Interview, Guang Yang, 29/06/2011). TIT was a subsidiary of Century Group, a large pharmaceutical company in Baojiang District. The main business of TIT was manufacturing industrial chemicals, and it also had businesses in areas such as hotel and restaurant management.

As TIT demanded a large and constant quantity of plastic packing barrels, Guang Yang saw that becoming the supplier of plastic packing barrels to TIT could improve Yang's income (Interview, Guang Yang, 29/06/2011). Guang Yang, being the Deputy General Manager, was aware that there were quite a few competitors aiming to supply plastic packing barrels to TIT. In Guang Yang's view, "Yang was not competent to compete with these competitors", because those suppliers were more competitive in company size, product quality, and price (Interview, Guang Yang, 29/06/2011). To assist Yang to become the supplier, Guang Yang used his reputation as a guarantee on the price of Yang's plastic packaging barrels. In order to help Yang overcome this entry barrier, Guang Yang used a friend's company, Pleasure Company, as the nominal supplier although Yang really did the work. Guang Yang recalls:

I went to the General Manager with one plastic packaging barrel from Yang. I even said to the General Manager that "the plastic packaging barrel from this company is the cheapest among all the suppliers". However, I did know that the quality of Yang's plastic packaging barrel was worse than those big suppliers (Interview, Guang Yang, 10/02/2012).

Yang eventually obtained this opportunity to supply plastic packing barrels to TIT. This opportunity may mainly have come from nepotism, with Guang Yang showing obvious favouritism towards Yang when selecting suppliers. On one hand, this relationship between Yang and Guang Yang may be considered as personal network and therefore be seen as legitimate in the context of business in China (Davies et al., 1995; Park & Luo, 2001; Tsang, 1998; Xin & Pearce, 1996). But on the other hand, this personal network was different from other kinds of personal network, such as with friends and government officials. It was a simple form of nepotism, which was not a unique phenomenon in China. Being Yang's elder brother, Guang Yang always sought opportunities within TIT to assist Yang in his career development.

After Yang worked as a cable salesman for three years, Guang Yang provided Yang with several job and promotion opportunities in TIT's subsidiaries, including Shuntai Subsidiary, Menyi Subsidiary, and Sunshine Lighting Equipment (Interview, Guang Yang, 29/06/2011). The next few pages describe Yang's work experience before he established his own enterprises. This is significant because it illustrates how Yang learned to overcome barriers, aiming at improving business performance before he started his own business. The management experience also provided Yang with the management knowledge and confidence to establish his own business, Beta Technology. In addition, Yang also established his personal credibility and personal networks with several key personnel, such as Mr Wang from the local Bureau of Technology Supervision, which he used to overcome barriers when he set up his own enterprise, Beta Technology.

Initially in 1989, Guang Yang introduced Yang first as a normal employee of TIT (Interview, Guang Yang, 29/06/2011). It seems that even working as a normal employee was a very good job at that time, as Guang Yang put it:

It was competitive to become a full-time employee in TIT, because our employees were well paid and the job was very stable (Interview, Guang Yang, 29/06/2011).

Similar to becoming the supplier of plastic packing barrels, nepotism played a significant role in Yang's entry into TIT. When Yang was employed, Guang Yang sought more development opportunities for him in TIT's subsidiaries. This marked a change in Yang's advancement because although the subsidiaries were under TIT's management, they had autonomy rights in making some business decisions. This meant he was less directly connected to his former mentor, Guang Yang, and had to succeed or fail on the basis of his own efforts.

4.3.2 1989-1991: Shuntai Subsidiary

In 1989, Yang became a member of the management staff for the first time in TIT's Shuntai Subsidiary. Shuntai Subsidiary was a relatively small subsidiary with only four employees, specialising in electrical cables and metals sales. Guang Yang had introduced Yang into Shuntai Subsidiary as a team leader.

In terms of how Yang developed as a manager, it should be noted that this particular opportunity to work as a team leader was provided by Guang Yang. Guang Yang believed that Yang did not have sufficient market experience to operate a business; thus, Guang Yang offered him an opportunity to collaborate with TIT in establishing a new subsidiary in Shuntai City (Interview, Guang Yang, 29/06/2011). In 1989, when Shuntai Subsidiary was established, Guang Yang appointed Yang to be one of the management staff. Guang Yang explained the operation of Shuntai Subsidiary in the following way:

Officially, Yang had contracted with TIT to manage Shuntai Subsidiary and he needed to pay an annual return to TIT. But in fact, I, as the Deputy General Manager, did not ask Yang for any payment. Yang was actually using TIT's money to generate profit for himself (Interview, Guang Yang, 06/03/2012).

It seems that not only nepotism but also theft was used as the strategy for Yang in this case. In many places, similar strategies may not be acceptable. However, in China, especially in 1980s, formal institutions were not as well structured as those in developed economies. It was much more acceptable that people like Yang, would take every possible opportunity to benefit themselves. In addition, there seemed to be no independent department within TIT to monitor management behaviour, which created the chance for Yang to use nepotism as a strategy for his own benefit. This confirms the conclusion achieved in some international research into nepotism. For example, Arasli, Bavik and Ekiz (2006, p. 296) note that, "nepotism is a very common behaviour in service business life".

In summary, the experience of working as a team leader transited Yang from being an ordinary employee to being management staff and enabled him to manage people for the first time. This experience also provided Yang with employee management experience in a small business environment.

4.3.3 1992-1993: Menyi Subsidiary

In 1992, TIT planned to establish another subsidiary in Menyi District of Local City (Interview, Guang Yang, 29/06/2011; Interview, Guang Yang, 28/05/2012), and Xu, the General Manager of TIT, promoted Yang to be manager of Menyi Subsidiary. In Guang Yang's view, the general business environment in Menyi Subsidiary was very

different and more complex than in Shuntai Subsidiary. For example, the scope of business in Menyi Subsidiary varied from supplying chemicals, metals, and machines to operating shops and restaurants. There were more employees than in Shuntai Subsidiary (Interview, Guang Yang, 29/06/2011). This company also faced a significant profitability problem because it was new, with few clients and little market share. Overcoming this barrier to survival and development was to be a significant step in Yang's growth as a businessman. So this new role as Manager of Menyi Subsidiary gave Yang much wider scope to develop his ability as a business leader.

Guang Yang's recommendation assisted Yang's promotion to Manager of Menyi Subsidiary. At the time of establishment in 1992, the General Manager of TIT, Xu, was seeking a manager for the new subsidiary. As with Yang's previous promotion, Guang Yang's contact with the General Manager of TIT facilitated Yang's promotion to General Manager of Menyi Subsidiary. Guang Yang recommended Yang to the General Manager for the position of manager in Menyi Subsidiary. Guang Yang recalls:

Yang's promotion to Manager of Menyi Subsidiary was related to two factors: the first factor is that Yang's previous performance has been recognised by Xu and Xu also realised Yang's potential to be a manager of the subsidiary; the second factor was that I recommended Yang to Xu. Selecting a manager can be a subjective process. Though Yang performed well in the previous subsidiary, it was not necessary for the General Manager to select Yang as the Manager for Menyi Subsidiary. Thus, being the Deputy General Manager of TIT, I intentionally mentioned Yang and his performance in various conversations with Xu. I also told Xu that Yang was a smart guy and implied his potential to be in charge of a subsidiary (Interview, Guang Yang, 29/06/2011).

Similarly, Yang's promotion to Manager of Menyi Subsidiary is another illustration of nepotism. Although Yang had no previous experience in managing a company, he was still recommended for the role. Existing academic research, such as Fafchamps (2001, p. 200), studies the phenomenon of obtaining positions through nepotism. In Yang's case, this promotion gave him the opportunity to learn how to operate a company as a manager and it also gave him the first opportunity to lead the company in overcoming barriers to further growth.

After Yang was appointed as the General Manager of Menyi Subsidiary, he took “creating good business performance” as his main focus (Interview, Yang, 21/02/2012). In order to realise high profitability, Yang analysed market opportunities and considered that “becoming the supplier to Shenxi was the most efficient and profitable method to improve the company’s performance” (Interview, Yang, 1/07/2011). Shenxi was a major petroleum and petrochemical enterprise in Menyi District and a subsidiary of China Petrochemical Corporation, a super-large petroleum and petrochemical enterprise group in China (Sinopec Group, 2011a). Yang provided three reasons to explain his intention to become Shenxi’s supplier:

The first reason for my choice of becoming a major supplier to Shenxi was that one of the products supplied by Menyi Subsidiary, a resistance thermometer sensor, exactly met the needs of Shenxi. This created the possibility for Menyi Subsidiary to become the supplier of Shenxi. The second reason was that being the supplier of Shenxi was able to ensure Menyi Subsidiary’s sales volume and cash flows. In particular, Shenxi was a reputable SOE in Local City with a large market share and strong financial performance. Thus, Shenxi’s large market share ensured constant demand for the resistance thermometer sensor. Meanwhile, Shenxi’s strong financial performance was able to reduce the possibility of delayed payments. The third reason was Menyi Subsidiary’s geographical advantage compared to other suppliers which were located in other cities or provinces. Because both Shenxi and Menyi Subsidiary were located in Menyi District, this geographical advantage was able to efficiently reduce the transportation costs for Menyi Subsidiary (Interview, Yang, 01/07/2011).

Yang’s thinking of becoming Shenxi’s supplier may be closely related to China’s market environment in the 1990s. Private enterprise was still in its early development phase, and SOEs remained the most influential participants in the market. Becoming a large SOE’s supplier would save Yang much effort in marketing Menyi’s products to less secure customers. Table 4.3 summarises Menyi’s main barrier and Yang’s detailed response to that.

Table 4.3 Overcoming barrier in Menyi Subsidiary

Problem	Yang's main response/strategy	Main aspect of Yang 's strategy	Steps of implementation
Menyi Subsidiary was a new company with a significant profitability problem	Becoming Shenxi's supplier	1. Improving product quality and obtaining ISO9000 quality certificate, a compulsory requirement of Shenxi Group 2. Communication with management staff from Shenxi	1) Invited professional members of staff from Bureau of Quality and Technology Supervision 2) Invited the members of staff to extend product range 3) Applied for ISO9000 quality certificate 1) Yang invited executives from Shenxi for banquets

Sources: Interview with Yang (01/07/ 2011), Interview with Guang Yang (29/06/2011).

Yang emphasised two main aspects: improving Menyi Subsidiary's product quality and obtaining the ISO9000 quality certificate, and communicating with management staff from Shenxi (Interview, Yang, 01/07/2011). Shenxi had very strict requirements in product quality. It was a compulsory requirement for their supplier to have a quality management system certificate ISO 9000. In the 1990s, international certificates such as ISO9000 could distinguish a company from competitors, as not many Chinese companies held such certificates at that time. However, the newly established Menyi Subsidiary did not have an ISO9000 at that time (Interview, Guang Yang, 29/06/2011). The question of how to meet Shenxi's product quality requirements, in particular how to obtain the ISO9000, became Yang's main focus in his initial efforts to lift Menyi Subsidiary's performance and profitability.

As summarised in Table 4.3, through his personal networks with Wang, the Director-General of the local Bureau of Quality and Technology Supervision, Yang's first action was to invite professional members of staff from the local and provincial offices of the Bureau to be involved in the product quality control process and to establish a standardised management control system for Menyi Subsidiary (Interview, Yang, 01/07/2011). Wang exercised his power to send his subordinate technical staff to Menyi Subsidiary.

The Bureau of Quality and Technology Supervision did not necessarily assist individual companies to establish management control systems, as their main

responsibility was supervising individual companies. However, having staff members of the Bureau who would supervise and assess the production technology involved in the establishment of a system would certainly be a shortcut for Menyi Subsidiary to improve product quality, because these staff members knew exactly about the assessment criteria. In addition, Wang also invited Tong, an experienced technical staff member from the provincial Bureau of Quality and Technology Supervision, to monitor and improve Menyi Subsidiary's product quality. Wang and Tong had a very good personal relationship, as they had worked together for many years. Although Tong did not know Yang, Wang acted as an intermediary to invite Tong to Menyi Subsidiary.

In Yang's view, the assistance from the technical members of staff of this important government agency was useful because those staff were very familiar with the product quality control procedures and national quality control standards. This illustrates the importance of political ties in China. Yang's efforts in getting professional technical staff involved were successful not only in improving the product quality of Menyi Subsidiary, but also in ensuring that the improvement was noticed by people whose views were important (Interview, Yang, 01/07/2011). The improvement in product quality laid the foundation for meeting Shenxi's compulsory requirement for the quality management system certificate ISO9000.

It may be seen that Yang's personal relationship with Wang had positive effects on improving Menyi Subsidiary's performance. This relationship became a long-lasting collaboration, as Yang noted that he and Wang had continuous interaction from this period until when the fieldwork was conducted for this research (Interview, Yang, 01/07/2011).

At the same time, Yang realised the importance of innovation because he believed that "the sustainable development of the company required new products to meet the changing consumer needs" (Interview, Yang, 01/07/2011). Again, Wang facilitated the involvement of technical members of staff from the provincial Bureau of Quality and Technology Supervision in the research and development process. The arrangement was that Yang paid over-time charge to these staff members when they worked for him. One of these technical staff members was a senior engineer from

the Bureau of Standards and Metrology who independently researched and developed new products for Menyi Subsidiary. This enabled Menyi Subsidiary to extend its product range and differentiate itself from other competitors. As a result, Menyi Subsidiary obtained an advantage in product innovation which then led to its improved competitiveness. The improvement in product quality and the development of new products were thus achieved at low cost to Menyi Subsidiary because of the co-operation Yang established with the local and provincial Bureau of Quality and Technology Supervision.

After improving the product quality, Yang applied for the ISO9000 quality certificate. As stipulated in the *Instructions for Supplier Management of Shenxi* (Sinopec Group, 2011b), only suppliers qualified by Shenxi could supply materials to the Shenxi Group and all Shenxi's subsidiaries. This meant that, "without this certification given by Shenxi, a company could not be a supplier even if their products were competitive in price and quality" (Interview, Yang, 01/07/2011). Therefore, in order to be qualified as Shenxi's supplier, Menyi Subsidiary had to fulfil every single requirement set out in the *Instructions for Supplier Management of Shenxi* (Sinopec Group, 2011b). Obtaining and applying the ISO9000 quality management system to daily operation was one of the seven basic requirements in the Instructions (Sinopec Group, 2011b, p. 4). The ISO9000 family of standards had an emphasis on quality management and they "represent an international consensus on good quality management practices" (International Organization for Standardisation, 2009).

This experience of obtaining the ISO9000 certificate is indicative of Yang's awareness of market opportunities. Clearly, at the beginning, the product quality of Menyi Subsidiary was not good enough. However, Yang was sensitive to the use of international certification, such as the ISO9000 quality certificate, to ensure product quality and add value to the product.

The second aspect Yang emphasised in order to become Shenxi's supplier was to establish and maintain good communication with management staff in Shenxi. Yang noted that, "increasing communication with management staff in Shenxi was part of this preparation strategy" (Interview, Yang, 01/07/2011). Guang Yang elaborated that, Yang always invited executives from Shenxi for banquets in Menyi Subsidiary's

own restaurant. Through communication at these banquets, executives from Shenxi believed that Yang was a person “worth trusting” (Interview, Guang Yang, 29/06/2011). This led to the establishment of managerial ties with executives at Shenxi. These managerial ties benefited Menyi Subsidiary, as it inclined these management executives to give Menyi Subsidiary preferential treatment. In some ways this is familiar in international practice. For example, managerial ties are argued to act as a lubricant to reduce transaction costs and as an opportunity to establish a strong inter-firm relationship (Williamson, 1985).

One external factor contributing to Yang’s success in becoming Shenxi’s major supplier was Century Group’s good reputation and public image. Although Yang did not work hard on this external factor, it was beneficial to Menyi Subsidiary. This was because Shenxi’s assessment of supplier qualification also took into account the suppliers’ sales volume and performance as well as R&D capacities (Sinopec Group, 2011b, p. 3). Century Group, the parent company of TIT, used its own reputation and quality management level to act as a guarantee and backup for Menyi Subsidiary’s product quality and quality management system. In particular, in 1990 Century Group had received the Quality Management Award of the China Association for Quality (now named the China Quality Award). This award was given to enterprises “in line with the Law of Products Quality of P. R. China” and with excellent product quality (China Association for Quality, 2011). The fact that Century Group received the award right at the start of the opening up of markets in China seems to show they had a well-established management system as well as outstanding product quality, which had positive effects on the company’s image and reputation.

Therefore, Yang’s success in becoming Shenxi’s supplier was not purely a result of networking, instead, it was due to a combination of three factors – improving product quality, establishing personal networks, and having Century Group as a strong backup. It is difficult to identify which factor was more influential based on available information. But the result was satisfactory. In line with Yang’s initial plan, Menyi Subsidiary’s sales volume increased and stayed at a higher level, and its profitability increased, which confirmed Yang’s success in overcoming the barrier of low profitability.

Appointing Yang as the Manager of Menyi Subsidiary may show that “intuitively nepotism is efficient for the group” when the person from the community can generate more returns for the group than a high-performance outsider (Fafchamps, 2001, p. 201). When Yang was promoted to manager, it was due to Guang Yang’s influence. The unobtrusive indicator referred to in international research as revealing nepotism appointments is that they require no specific qualification or trial period (Fafchamps, 2001, p. 200). This was clearly the case here. The fact is, however, that the outcome was positive because when Menyi Subsidiary faced the barrier of low profitability, Yang took measures to successfully overcome this barrier. For example, his strategies in improving product quality and obtaining the ISO9000 quality management certificate directly contributed to his success in overcoming the barrier of low profitability.

However, in 1993 after only 18 months, Yang decided to leave Menyi Subsidiary. His explanation was that he realised that Menyi Subsidiary’s competitive advantages no longer existed and that the company would have little chance of advancing its business performance (Interview, Yang, 01/07/2011). In particular, the market situation had changed as Shenxi started to readjust its business operations. Shenxi began to produce more materials itself instead of outsourcing from suppliers such as Menyi Subsidiary. Given this circumstance, Menyi Subsidiary’s advantages were no longer helpful. Yang realised that, given the changes in the market, Menyi Subsidiary was going to lose its main client, Shenxi. This indicated that it would be very difficult for Menyi Subsidiary to remain profitable.

Rather than staying with Menyi Subsidiary and presiding over falling performance, Yang’s response to the changing situation was likely to be opportunistic. He chose to leave Menyi Subsidiary and move to another company that could provide him with career advancement. Meanwhile, Guang Yang had offered another career advancement opportunity to Yang, which also motivated Yang to leave Menyi Subsidiary (Interview, Yang, 01/07/2011). Being Yang’s elder brother, Guang Yang cared about Yang’s career advancement and paid attention to potential opportunities that could benefit Yang. This again showed that nepotism played a crucial role in Yang’s career development. In addition, Yang’s awareness of market changes reflected his analytical skills and sensitivity to market changes. However, instead of

taking measures to continue improving Menyi Subsidiary's performance, Yang chose to grasp the opportunity provided by Guang Yang. This more opportunistic approach was to be a characteristic of Yang's activity but also fits some international research findings regarding the nature of entrepreneurship (Ardichvili, Cardozo & Ray, 2003; Romar, 2004).

4.3.4 1994-1995: Sunshine Lighting Equipment

In 1994, Guang Yang, then the General Manager of TIT, promoted Yang to be the Manager of Sunshine Lighting Equipment. He described the operational status of Sunshine in the following way:

Sunshine was already in the red by 1994 and its products were out-dated, which could not meet the market demands. For example, the main products of Sunshine were heating and lighting equipment. Owing to the lack of research and development, Sunshine was still following the old production methods to manufacture heating and lighting equipment. In addition, employees were not receiving their salary on time because of Sunshine Lighting's losses and shortage of cash (Interview, Guang Yang, 29/06/2011).

Guang Yang explained that the general business context in Sunshine Lighting Equipment was different from Menyi Subsidiary. Sunshine Lighting was not a subsidiary owned by TIT. It was a company rented by TIT. Under this arrangement, Sunshine only needed to pay an annual rent instead of a larger purchase payment. This would not take up too much of TIT's cash flow. In Guang Yang's view, the other reason for leasing Sunshine Lighting Equipment was that the management staff in TIT did not even realise there was another approach to running Sunshine, which was to purchase Sunshine Lighting Equipment (Interview, Guang Yang, 06/03/2012). This may show the lack of management knowledge of the general management staff members in the SOEs.

As mentioned earlier, in 1994 the company was operating at a loss, as its products were not meeting the market needs. Two factors contributed to this business failure. First, Sunshine Lighting's production technology and products were out of date. Second, the management system may not have been adequate to cope with the company's operation. This loss created other problems for TIT, such as employee complaints. Guang Yang's immediate reaction was the replacement of Sunshine's

General Manager (Interview, Guang Yang, 29/06/2011). Guang Yang replaced the General Manager of Sunshine Lighting with Yang. In 1994, Guang Yang had already been promoted from Deputy to General Manager of TIT, therefore he had the right to appoint managers for TIT's subsidiaries (Interview, Guang Yang, 29/06/2011). In addition, there were no explicit policies or regulations on the selection of managers in TIT. An additional consideration was that Guang Yang trusted his younger brother to perform well. Guang Yang believed Yang's previous work experience in operating Menyi Subsidiary would enable him to operate Sunshine well. This was especially the case as the main products of both Menyi Subsidiary and Sunshine Lighting were related to electronic products. Guang Yang believed that Yang was familiar with and had the experience of operating a company in this industry (Interview, Guang Yang, 29/06/2011).

Yang implemented a range of strategies to increase the sales and profitability of Sunshine Lighting. His previous accumulation of market and management knowledge contributed to the selection and implementation of business strategies. From the experience of operating Menyi Subsidiary, Yang realised the importance of business emphasis and good product quality. In particular, Yang first changed the business emphasis of Sunshine Lighting, shifting from products such as lighting and electric heaters to control instruments and equipment. This was because, compared to lighting equipment, control instruments and equipment could be more high-tech and profitable (Interview, Yang, 01/07/2011). In addition, Yang brought all the products from Menyi Subsidiary to Sunshine Lighting. Products in Menyi Subsidiary were mature products, and the product quality had been examined by the local and provincial Bureau of Quality and Technology Supervision, as well as the ISO9000 process. So this ensured that Sunshine Lighting's products covered a range of mature and high-quality products that had the potential to generate profit (Interview, Yang, 01/07/2011). Therefore, with the mature products from Menyi Subsidiary and several new products produced through its own innovation, Sunshine Lighting's product range was wider. Given the change in business emphasis and the high-quality mature products, Yang altered the company name from Sunshine Lighting to Century Group Control Instrument and Equipment Co. Ltd (Interview, Yang, 01/07/2011). This may have had the advantage of changing the consumers'

impression of Sunshine from an out-dated lighting equipment manufacturer to a more advanced control equipment manufacturer.

In addition to the change of products being manufactured and company's name, Yang took a similar approach to that in Menyi Subsidiary. He was convinced from Menyi Subsidiary's success that improving product quality and becoming a strategic supplier to a large SOE, in this case, Century Group, could significantly increase company profitability (Interview, Yang, 01/07/2011).

During the process of becoming a major supplier of Century Group, Yang not only received support from top management in Century Group, but also from the supervisors who were in charge of the details. A significant aspect of Guang Yang's and thereby Yang's relationship with the Century Group was establishing a relationship with Shi, the General Director of Century Group. Guang Yang's wife, Wong, seems to have played a significant role in the process of initiating the relationship with Shi through Shi's wife. Although Wong was not directly involved in operating any business, she was crucial to her husband's involvement.

In Wong's words, initially, Guang Yang, Yang, and Shi did not have very good relationship (Interview, Wong, 30/06/2011). Wong remembered that she started to build the relationship through giving gifts to Shi's wife. Wong recalls:

I heard from other people that Shi's wife could have influence on her husband's decisions. Also, it was easier for me to communicate with his wife as a female. However, the process was not very smooth. Giving gifts was certainly important. But I did spend some time on selecting gifts that would fit their tastes. I can still remember the first time I went to Shi's home to give them gifts. When I walked in, Shi's wife was having a shower. I decided to wait for her, but Shi did not even ask me to sit down. He was sitting there with a stony expression. In order to break the embarrassment, I tried to talk to him but the response was very unconcerned. When Shi's wife finished showering, I gave her the gift, which was a sweater I had purchased from a high-end department store. The effect of the gift was positive, as Shi's wife liked the sweater and she started to talk to me more often (Interview, Wong, 30/06/2011).

The establishment and maintenance of the relationship with Shi was not a one-off issue. Instead, Wong thought it required long-term communication and investment (Interview, Wong, 30/06/2011). This long-term communication took place over different occasions but regularly having dinner together were significant events. The

way Wong established and maintained the relationship with Shi and his wife is significant in that it appears to be a typical example of how Chinese people initiate and maintain a relationship with top management personnel with the aim of gaining support for their own business activity. In Wong's view, having dinners together and giving gifts were only very basic methods of maintaining the relationship (Interview, Wong, 30/06/2011). It is significant that in interviews she paid particular attention to explaining the reactions to special occasions (Interview, Wong, 30/06/2011). Wong provided an example:

When we heard that Shi's father-in-law passed away in Beijing, Guang Yang, Yang, and I went to Beijing for his funeral. Shi and his wife appreciated this very much. From then on, they started to accept our invitations for dinners. And I could feel that our relationship was closer than before (Interview, Wong, 30/06/2011).

Having attended Shi's father's funeral may be a milestone, from which Shi started to treat Guang Yang and Yang as his close friends. This was because, in China, only close friends or relatives are likely to attend a funeral. Guang Yang and Yang's attendance at the funeral may also have given Shi an impression that the brothers were not aiming at his power as the General Director of Century Group, instead, they did care about his own life and his family members. When the relationship became closer, Yang and Guang Yang had the chance to talk to Shi about allowing Sunshine to be the strategic supplier of Century Group. This was discussed at dinners with Shi and his wife (Interview, Guang Yang, 29/06/2011). Shi agreed, but Yang understood that even with Shi's agreement, he still needed to ensure product quality (Interview, Yang, 01/07/2011).

With support from Shi, Yang used his network with management personnel, such as Lang and Zong who were in charge of selecting suppliers of equipment, in three main aspects to further improve Sunshine's production, as presented in Table 4.4.

Table 4.4 Major aspects where Lang and Zong helped Yang in improving the product quality

No	Major aspects	Effects of this action on Sunshine's performance
1	Helped Yang to apply the quality management system being used in Century Group's electronic repair plant to Sunshine Lighting at no cost (Interview, Yang, 01/07/2011).	Century Group's quality management system had significantly increased Sunshine Lighting's production but it had also increased employee wages, and it reduced costs (Taksa, 1992, p. 373).
2	Persuaded a retired experienced workshop director of Century Group's electronic repair plant to work for Sunshine Lighting.	Had positive effects on improving production.
3	Invited skilled staff members in Century Group's electronic repair plant to work for Sunshine Lighting in their spare time.	The quality and productivity of Sunshine Lighting's products were increased dramatically.

In the case of the first aspect, part of Zong's and Lang's work was about the quality management system. So they came to Sunshine Lighting at no cost apart from the costs involved in building and maintaining the personal relationship. Yang maintained good personal relationships with Lang and Zong by inviting them for dinners in Menyi Subsidiary's restaurant while he was the Manager of Menyi Subsidiary. Yang also invited Lang and Zong for family parties on weekends to deepen the personal connection with them.

Century Group's quality management system had significantly increased Sunshine Lighting's production, but it had also increased employee wages, and it reduced costs (Taksa, 1992, p. 373). Century Group's quality management system was based on the principles of scientific management established by F.W. Taylor in the United States of America (USA) a century earlier and implemented across many industries in many places since the 1910s (Taksa, 1992, p. 373). The key to the application of this "scientific management" system is to clarify the production procedures and related duties of each staff member (Taylor, 1967). Therefore, when scientific management is introduced into a production system, individual judgement of workmen is substituted with "a science", that is, a clearly defined procedure (Taylor, 1967, p. 114). Each employee is scientifically selected and trained for a particular job instead of "allowing the workman to select themselves in a haphazard way" (Taylor, 1967, p. 114). Scientific management principles have been useful in China for clarifying the manufacturing process to contribute to an improved output. This

was especially the case for Century Group, being a manufacturing company similar in many ways to the companies that applied Taylor's scientific management principles.

Regarding the second aspect, the retired workshop director was not only familiar with Century Group's scientific plant management system, but he also had previous experience in managing plant staff. He knew how to communicate with workers in a way that would be accepted by them and workers were more likely to respect the older experienced manager. This retired workshop director was helpful in assisting Sunshine Lighting to achieve the scientific management aim, as discussed by Taylor, as the "cooperation of the management with workmen, so that they together do the work in accordance with the scientific laws which have been developed " (1967, p. 114).

In the case of the third aspect, Sunshine Lighting paid those skilled staff members privately, not through the electronic repair plant (Interview, Yang, 01/07/2011). By using these experienced staff, the quality and productivity of Sunshine Lighting's products were increased dramatically. The labour costs were very low because they paid the skilled staff members on a time basis. With improvement in product quality and productivity, Lang and Zong assisted Sunshine Lighting in applying for the product quality certificate to fulfil Century Group's compulsory requirement, as both were familiar with the application requirements and process.

With support from top management, together with Lang and Zong, Sunshine Lighting successfully became a major equipment supplier to Century Group. Sunshine Lighting's business performance also improved, therefore, Sunshine's employees not only received their salaries on time, but also received a bonus (Interview, Yang, 01/07/2011).

It may be seen that personal networks did play a significant role in this case, but it may not be the only determinant of Yang's success. Maintaining good personal networks with top management personnel could not eliminate every single barrier, instead, Yang did expend effort in improving product quality and productivity. This phenomenon may depart from the argument that doing business in China is all about

personal networks. Using his personal relationships with Zong and Lang also assisted the improvement of Sunshine's performance.

This period of managing Sunshine Lighting gave Yang a second chance to improve his management skills, especially his strategies to be used when facing the barrier of low profitability. During this period, Yang obtained better insights into the market and came to understand both technical innovation and employee motivation as essential to high performance. However, Yang still preferred to set up his own business, as he had noticed "a lot of politics going on" in such a large SOE as Century Group (Interview, Yang, 01/07/2011). By saying this, Yang may imply that the maintenance of personal networks with Shi, Lang, and Zong required much effort. In 1994 Yang discussed this with Guang Yang and decided to set up his own enterprise.

4.3.5 1995 onwards: Beta Technology

In 1995, Yang established his own business, Beta Technology. It was Yang's first attempt to set up his own business. He did not, however, completely resign from TIT (Interview, Guang Yang, 29/06/2011). In particular, during the preparation period, Yang remained a full-time employee in TIT in order to ensure that he received a base salary and superannuation, which would cover his basic living expenses. This was an unusual management in Chinese SOEs at this time. However, Guang Yang agreed with Yang's remaining employed by TIT and nobody reported Yang's situation to other authorities.

Beta Technology was established as a specialist manufacturer of electronics. Its key product was an integrated circuit (IC) card. IC cards had a large market in Local City in the mid-1990s, because they replaced the old electricity and natural gas meters in almost every household. Yang claimed that even ten years later some areas in Local City still use Beta's IC cards to recharge for electricity and natural gas (Interview, Yang, 01/07/2011). However, the establishment of Beta Technology was not very smooth. At the time, Yang met threshold barriers that were mainly created by government policy. In particular, as an individual owning no business, Yang did not qualify to establish a new enterprise. In 1995, government policy required that a

new company could be established with at least two shareholders and the shareholders must be companies not individuals.

In order to help Yang overcome this threshold barrier, Guang Yang asked Gao and Yin, two contractors of TIT, to register Beta Technology as a new company although Yang was the real owner of the company (Interviews, Guang Yang, 29/06/2011; 10/02/2012). In return, Guang Yang used his power as the General Manager of TIT to offer projects to Gao and Yin's companies, which meant they could profit from TIT's projects. With this financial incentive, Gao and Yin registered Beta Technology for Yang.

Although Beta Technology was registered by using Guang Yang's relationships with Gao and Yin, this relationship was very different from the network with Lang and Zong. Guang Yang's relationship with Gao and Yin might not have been based on trust and long-term friendship. Instead, Gao and Yin's willingness was simply due to the potential financial benefits offered by Guang Yang.

A second barrier was lack of finance. Although Yang had been General Manager of Sunshine Lighting, he did not have enough funds of his own to support the operation of Beta Technology (Interview, Yang, 01/07/2011). To obtain enough funds, Yang received significant assistance from Guang Yang, including free factory buildings and finance. Guang Yang and Yang had purchased a piece of land in rural Baojiang District, in an area called Fans Town, as a location for Beta Technology. On the piece of land, there had already been several rather old factory buildings. The purchase price was RMB 320,000 (US\$50,600). Guang Yang paid RMB 180,000 (US\$28,550), Yang paid RMB 120,000 (US\$19,032) and one of Guang Yang's relatives paid RMB 20,000 (US\$3,172). Guang Yang also pressured Gao to help Yang renovate the existing factory buildings at no cost:

During one conversation with Gao, I told him of TIT's intention to give more projects to him. I also told him that, "the factory buildings of Yang's company were a bit old and may need some renovations" (Interview, Guang Yang, 06/03/2012).

Guang Yang was implying that if Gao could renovate Yang's old factory building, then in return, Gao would obtain more projects from TIT. Therefore, Gao renovated

the old factory buildings for Yang. Yang started his own business with initial capital of RMB 2 million mainly from his own savings and family members, as well as free factory buildings. In terms of the funding required for Beta's of business operation, existing personal networks in Century Group had very positive impacts for Yang. For example, Yang bought some equipment from Century Group through Lang and Zong at very low prices and some he did not pay for at all.

Yang used his familiar strategy from the development of Menyi Subsidiary and Sunshine Lighting in monitoring product quality and becoming a major supplier to both Century Group and TIT. To ensure product quality, Yang used his previous personal networks in the provincial and local Bureau of Quality and Technology Supervision. Yang had become familiar with some technical staff from the provincial and local Bureau of Technology Supervision when these technical staff worked for Shuntai and Menyi Subsidiary. He invited them to monitor and improve product quality for Beta Technology (Interview, Yang, 01/07/2011). This again shows the importance of maintaining political ties.

Learning from previous experience, Beta Technology became the major supplier to Century Group and TIT. Having a single SOE as a major customer was risky because it is common that companies in China often complain of not getting paid on time, but Yang received payments promptly or even in advance. It seems that Yang received preferential treatment in collecting money because of this relationship with Guang Yang and staff in the finance department of Century Group. The payments from TIT were authorised by Guang Yang. Guang Yang exercised his power to pay Beta Technology in advance or to prioritise the payments to Beta Technology. It was not only from his brother that Yang received preferential treatment, Yang had also established a good network with executives in Century Group's finance department when he was the Manager of Sunshine Lighting, as he occasionally went to the finance department for funds. Therefore, when finance staff knew that Beta Technology was Yang's own business, they tried to prioritise payments to him. This again showed the positive effects long-term personal networks had on business performance. Yang's personal network with staff in the finance department was different from that with Guang Yang. Their willingness to pay Yang in advance was more likely based on trust in him as a colleague than as a close relative.

Several aspects of Yang's actions in relation to establishing Beta Technology have similarities to findings in research related to starting new enterprises in market economies. Yang's efforts in establishing Beta Technology may be seen in terms of a "creative response" to the opportunities presented by economic reform in China (Schumpeter 1947, p. 150). Yang started Beta Technology, which is similar in both market and technology to Sunshine Lighting of TIT, where Yang had been employed immediately prior to establishing Beta Technology. These organisations could be seen as playing the role of his "incubator organisation" (Cooper, 1985, p. 77). Once again, similarities can be observed in international research on new enterprises and innovation where the lessons of starting new enterprises similar in market with an incubator organisation reduce risk and cost (Bull & Willard, 1993; Cooper & Bruno, 1977; Cooper, 1985). New enterprises similar in market and technology with an incubator organisation have been observed as having a higher rate of survival than enterprises different from their incubator organisation (Bull & Willard 1993, p. 189). The explanation given by researchers is that, "entrepreneurs can gain both expertise and relationships necessary for success from precious work experience" (Bull & Willard, 1993, p. 189).

During the establishment and operation of Beta Technology, Yang's informal networks made significant and positive contributions to obtaining advice and assistance. Research in the USA has found that entrepreneurs use informal networks, including family, friends, previous colleagues or employers, who are more likely to be willing to listen and to give advice (Birley, 1985, p. 109). The breadth of Yang's networks and his use of them seem similar to those identified in Birley's (1985) research into the role of networks in the entrepreneurial process in St. Joseph Country, Indiana. This found that entrepreneurs tended to rely on informal networks instead of formal networks in lining up finance, locating the business, and planning the future activities of the enterprise because of the lack of formal institutions and financial markets. In Yang's case, he received significant support from the informal networks, mainly through and from Guang Yang. This helped him overcome the threshold barriers of establishing Beta Technology.

Despite the low cost of starting up, Beta Technology was not successful (Interview, Guang Yang, 29/06/2011). In Guang Yang's view, the first reason was the lack of a

structured management team (Interview, Guang Yang, 29/06/2011). When Yang worked for TIT, he had a management team. The structure was provided by the company and Yang was able to rely on the teamwork. However, when Yang started his own business, he worked on his own, using his networks. No management team or staff members were employed. The result was that Yang not only needed to manage the overall operation of the company but also the details.

The second reason according to Guang Yang for failure was that the focus on producing electronic products was not ideal. Electronic manufacturers may need to have strong R&D capacities to be competitive in the market and keep costs low. Failure to keep up with the technological advances may lead to the business failure. However, in Guang Yang's view, Beta Technology did not have a strong R&D team (Interview, Guang Yang, 29/06/2011). Although Beta Technology received some technical support from Wang and other technical staff from the provincial and local Bureau of Quality and Technology Supervision, they focused on quality control but they did not conduct the research required for constantly updating the technology. By its nature, the Bureau of Quality and Technology Supervision was mainly responsible for controlling and monitoring the quality of products, but it was weak on innovation.

Owing to the lack of management as well as R&D and insufficient competitiveness against similar companies, Yang lost around RMB 1 million (US\$158,955) during period 1995 to 1997. Under these circumstances where Beta Technology was not able to operate profitably, Yang and Guang Yang decided to move to the property-development industry which they regarded as highly profitable, and as more likely to generate profit for them without the need for expensive technology-based industries (Interview, Guang Yang, 29/06/2011; Interview, Yang, 01/07/2011).

As with Yang's previous changes, his move to the property-development industry may again show his response to poor business performance was opportunistic. Instead of taking measures to improve business performance, he again moved to a new business. But this would be different from his previous experience, as he started to establish in an industry that he was not familiar with.

4.3.6 1997: Moving to the property-development industry

Yang met similar threshold barriers when establishing his own property-development company, Dragon Property, as he encountered with Beta Technology. The first was a policy barrier. In 1997, the Chinese government started to control property-development companies. It was not easy to obtain the licence needed to start a property-development company. To overcome this threshold barrier, Guang Yang decided to use his personal network with Cai, the Director-General of the Local City Construction Committee (Interview, Guang Yang, 29/06/2011).

At the time of establishing Dragon Property, Guang Yang recognised that Cai could be the key person to help Yang overcome the policy barrier to establishing a new company. The Local City Construction Committee, under the jurisdiction of the People's Government of Local Municipality (Local City Construction Committee, 2009), issued licences for property-development companies. Guang Yang offered Cai a shareholding in Dragon Property without any investment. Thus, Cai did not invest in the company but he was still able to receive profits from it. Guang Yang recalled:

I had a private talk with Cai to persuade him to get involved in Dragon Property. I said to him that “we are not young people seeking career advancement and we should cooperate to gain some real personal benefits”. I told Cai clearly that he could receive financial benefits from being a shareholder of the company. The only thing he needed to do was to obtain a licence for Dragon Property (Interview, Guang Yang, 29/06/2011).

Cai agreed with Guang Yang's proposal and under these conditions became a shareholder of Dragon Property. Cai exercised his power to obtain a licence for Dragon Property by saying to his subordinates, “One of my close friends wants to establish a property-development enterprise, could you please look after this issue?” (Interview, Cai, 02/02/2012). Cai's subordinate took Cai's request seriously and helped Dragon Property obtain the licence.

Guang Yang's personal relationship with Cai may be intertwined, as Luo (2007) discusses in his research into *guanxi* and business in China. On one hand, Guang Yang's relationship with Cai had been long term and they were good friends. However, in the case of Dragon Property, Cai clearly used his power to obtain personal financial benefits.

In 1997, Yang officially established Dragon Property, in a partnership with Cai's son Lei, Guang Yang, and Cai. Lei was a doctor in one of Baojiang's hospitals and he ran his own business in his leisure time. Yang and Lei each owned 40 percent of the company and Guang Yang and Cai each held 10 percent of the shares. In this case, Cai and Guang Yang had the capacity to overcome the threshold barrier, but they could not be directly involved. Because Cai was a government official and Guang Yang was a manager of an SOE, it was too politically sensitive for them to organise their own private company. However, Cai's son and Yang were well placed to be the public face of a new property-development enterprise, while the people behind the actual partners were Guang Yang and Cai.

Guang Yang was the old Chinese style of a successful person. He was a Party official and senior manager who saw some opportunities to put his brother Yang into the next generation of Chinese opportunities. The opportunities Guang Yang employed to become successful may not have been there for Yang, as the economic and political environment in China was changing. However, Guang Yang was in a good position to make a judgement about that. He made the judgement so people like him and his friend Cai could work together. Although Guang Yang and Cai could not take the opportunities for themselves, they helped the next generation in their families to take up the opportunities, which would be regarded as the intergenerational transfer of knowledge (Harvey, 2012; Kuyken, 2012; Trevinyo-Rodríguez & Bontis, 2010). In this case of Dragon Property, the fact that Guang Yang assisted Yang looked like networking and to some extent, it was, but it was also a vehicle of transferring knowledge from one generation within the family to another generation. The key knowledge Guang Yang had was how to succeed in business in China. Guang Yang had figured it out through the process of his career advancement and he helped Yang to learn it. Yang was resistant and he had to make his own mistakes. An example of Yang's resistance was his collaboration with Gong, which is addressed in the following sections. Although Guang Yang tried to persuade Yang from cooperating with Gong, Yang insisted in that.

With the property-development licence, Dragon Property was able to conduct property-development projects. Not long after Dragon Property obtained its licence, Gong, a builder, wanted to become a shareholder in Dragon. Yang and Gong were friends but

they had not known each other long (Interview, Guang Yang, 29/06/2011). Gong wanted to be involved in Dragon Property because his own business in the construction industry was not operating well. Gong thought developers made more out of construction projects than other builders and that he might earn more profit if he could enter a property-development enterprise (Interview, Guang Yang, 29/06/2011). Guang Yang disagreed with Gong's entry, as in his view, it would become very troublesome if there were too many shareholders. He felt it would be better if Dragon Property contracted Gong as their builder instead of allowing him to be a shareholder (Interview, Guang Yang, 29/06/2011). However, Yang did not agree with Guang Yang and insisted on Gong's entry and transfer 10 percent of his shares to Gong.

With Yang's trust and agreement, Gong successfully entered Dragon Property. Gong was the only partner with a public profile in the industry. He became the face of Dragon, as Yang still had not completely resigned from TIT, Cai and Guang Yang were public servants, and Lei did not pay much attention to the operation of the company. However, Gong did not position himself as the contracted builder; instead, he positioned himself as the potential owner of Dragon Property. Because of the lack of regulation, Gong transferred Dragon Property into his name one year after it obtained its licence (Interview, Guang Yang, 29/06/2011).

Gong had come into the company only on Yang's insistence, based on his trust that Gong was a good man (Interview, Guang Yang, 29/06/2011). When Dragon Property was transferred to Gong's name, Yang, Guang Yang, Lei, and Cai lost their investment and their collaboration came to an end. From the viewpoint of Yang's development as a businessman, the example of Gong stealing Dragon Property is an example of a mistake. Yang liked Gong, and he allowed this personal feeling to dictate his actions. What is also obvious is that Yang did not understand the industry or understand business very well. However, Gong knew the industry as a whole was being built on a corrupt basis. This was not unusual in Chinese business at this time and a considerable amount has been written about it internationally (Sun, 2008; Wedeman, 2012a, 2012b). It was likely that Gong made use of the fact that Yang and Guang Yang were a bit naive about the industry to steal Dragon Property.

However, from the experience of the operation of Dragon Property, Yang realised the profitability in the property-development industry and gained insights into its character. He then considered setting up his own property-development enterprise, Yang's Property. When establishing Yang's Property, he used these lessons from the previous experience of Dragon Property, and he decided to fully own the company without cooperating with anyone else. However, later during the development of Yang's Property, Duan and Xia became shareholders of the company, as Yang believed that both of them could benefit the company from different aspects.

4.4 Yang's Property

Yang's Property was established in 2003 and in subsequent years developed five housing projects. Table 4.5 highlights the five projects and the main barriers Yang's Property met. All five projects were located in Local City. It is worth noting that Yang's fifth and current property-development project at the time of conducting this research was Duke Villa. Unlike the previous projects, Duke Villa was targeted at the high-end residential market. It is clear that Yang's development projects had become more and more market oriented. At the simplest level, this is evident in the names of the projects. The first two reconstruction projects had no specific names. However, the names of the other three development projects were part of a marketing strategy focused on likely purchases.

Table 4.5 Property-development projects of Yang's Property

Project number	Project name	Starting Year	Description of project	Major barriers
1	Reconstruction project of TIT's old office building	2003	A specialised wholesale market with commercial units	Land-access, finance
2	Reconstruction of Century Group's old residential building B100	2004	A modern mixed-use commercial and residential building	Land-access, finance
3	Landscape	Obtained land in 2005 and started the project in 2008	A commercial building	Land-access, finance
4	Peace	2005	A modern mixed-use commercial and residential building	Land-access, finance
5	Duke Villa	Started to obtain land in 2005 and started the project in 2010	Luxury villas	Finance

In 2011, there were 30 full-time employees in Yang's Property. As previously discussed, Yang was the only shareholder at the beginning. Then, Duan, the Commander of Local City's Police Crime Squad, and Xia, the General Manager of Yang's Property, became shareholders. In 2011, Yang, the Director of Yang's Property, was the largest shareholder with 70 percent of shares, Xia held 10 percent, and Duan had 20 percent. For the years 2006 to 2008, Yang's property did not have any property-development projects; therefore the sales revenue was zero. Yang and Guang Yang's view of the potential profitability of property development was borne out in 2009 when sales revenue exceeded RMB 10 million and in 2010 when it was over RMB 40 million.

The following sections discuss the major barriers Yang's Property met after its establishment chronologically. The aim is to illustrate the difficulties Yang's Property met in each project and the methods they used in overcoming them.

Threshold barrier

When establishing Yang's Property, Yang met the barrier of how to obtain a legal property-development enterprise licence. Yang was in a similar situation when he established Dragon Property. The only difference was that by 2004 the licences were more strictly controlled by the Chinese government than in 1997. In Yang's view,

many regulatory requirements for establishing a property-development enterprise were unrealistic for private property developers (Interview, Yang, 01/07/2011). By this he meant that the regulations could not be met within a business model. This was especially the case for smaller private property developers like Yang's Property.

In order to obtain the certificate for property development qualifications required to gain a licence, some conditions had to be met. As mentioned in Chapter 2 and presented in Table 2.6, in 2000, the Ministry of Housing and Urban-Rural Development of the People's Republic of China enacted *Order 77: Regulations on Qualification of Property-development Enterprises in 2000* (Ministry of Housing and Urban-Rural Development, 2000). *Order 77* classifies the grading system into four grades ranking from Grade One to Grade Four, and specifies requirements on capital, number of professional staff members, compulsory qualifications of professional staff members, and the enterprise's experience as well as track record.

In 2004, Yang's Property managed to become a Grade Four property developer. Table 4.6 summaries the requirements to become a Grade Four property developer.

Table 4.6 Requirements of Grade Four property-development companies in China, 2000

Grading	Capital	Personnel	Levels of Personnel	Years of Experience	Track Record
4	Liquid capital >1 M Reg.capital≥1 M	Professional staff≥5	Key staff in engineering at middle professional levels; finance staff at junior professional levels supported by bookkeeping staff	1 year	No severe construction-quality accidents

Source: Adapted from Tang and Liu (2002, p. 10).

However, Yang noted that his company was in fact too small to meet some of the requirements, therefore he had to find ways around them (Interview, Yang, 01/07/2011). As the assessments on several requirements only needed the qualification certificates not actual staff members, some qualification certificates were borrowed from other companies. This meant that nominally these staff members were employees of Yang's Property; however, they were actually full-time employees of other companies. Yang

provided an example to illustrate:

For example, *Order 77* required Grade Four property developer to employ at least two qualified accountants when establishing the enterprise. But in 2003, there were only two accountants in Yang's Property and neither had accounting qualifications. The main reason for employing them was that both of them were experienced accountants, and in addition they had been working for Yang's previous businesses. To meet this requirement, two qualification certificates were borrowed, and one of these two qualification certificates was from Guang Yang's wife, Wong (Interview, Yang, 01/07/2011).

The information seems to show that the government requirement was not about the company's capacities in conducting property-development activities, but constituted an unnecessarily unrealistic grading system that encouraged gamesmanship and potentially mere serious absence.

Guang Yang's relationship with Cai also contributed to the establishment of Yang's Property. Cai's assistance in obtaining the licence was not based on a financial incentive as it was with Dragon Property. Instead, during the cooperation with Guang Yang and Yang in Dragon Property, Cai felt that "Guang Yang and Yang were the kind of friends that were worth my emotional investment and help" (Interview, Cai, 02/02/2012). This shows an interesting development in the brothers' credibility as businessmen. In 1997, with the registration of Dragon Property, the financial incentive used to gain Cai's support was clear. Now, as a result of working together on that failed venture, Cai's support was based on the trust of the brothers of Yang and Guang Yang because of their previous performance.

4.4.1 Property-development project 1: Reconstruction project of TIT's old office building

Yang's first property-development project was the reconstruction of TIT's old office building. The land where TIT was located was for commercial use and the land-use rights were owned by TIT (Interview, Guang Yang, 28/05/2012). Yang recalled two major barriers when establishing Yang's Property as land-access and financial barriers (Interview, Yang, 01/07/2011). Being a new property-development enterprise, the company had no previously acquired land that could be used to conduct property-development projects. In addition, Yang noted that, at the

establishment of Yang's Property, he only had around RMB 0.5 million (US\$79,471), which was not enough for conducting property-development projects (Interview, Yang, 01/07/2011).

The land-access barrier was partly related to Yang's lack of funds, it may also be related to government policies on land supply and land-use rights at that time. Since 2003, the Ministry of Land and Resources of China has enacted a series of policies aimed at reducing land supply and tightening control of land use. The focus of this section is not on detailed analysis of land policy changes in China, but on providing background information of the land-access barrier faced by China's private property-development enterprises, particularly privately owned small-to-medium-sized property-development enterprises. For the purpose of laying the foundation for the discussion on how Yang overcame the land-access barrier, a brief account of government policy will be sufficient.

A particular problem for Yang's Property was that some government policies seemed to prevent private property-development enterprises from obtaining the right to use land at all. For example, as mentioned in Chapter 2, *Provisions on Assignment of State-owned Construction Land Use Right through Bid Invitation, Auction and Quotation* (Ministry of Land and Resources, 2007), which was originally introduced in 2002 and modified in 2007, created a significant land-access barrier to private property-development enterprises, particularly small and medium-sized property-development enterprises. Previously, in China, land-use rights could be granted by negotiated agreement between land users and local government.

Yang's initial land-access barrier was resolved through collaborating with TIT because, in reconstructing their old office building, he did not need to bid for land. Guang Yang, as General Manager of TIT, played a significant role in obtaining this opportunity for Yang. Guang Yang recalled three measures he took to assist Yang in overcoming the land-access and financial barriers. These three measures included appointing Yang as the official developer for the project of reconstructing TIT's old office building, seeking a nominal developer to assist Yang, and permitting late payment of the land-use rights costs (Interview, Guang Yang, 29/06/2011). When Guang Yang appointed Yang as the developer for the reconstruction program, this

stopped other property-development enterprises competing for this program. In Guang Yang's view, the reasons for his second measure, seeking a nominal developer, were two-fold:

The first reason was, having a nominal developer could make my relationship with Yang less obvious to the public. Many staff members were aware Yang was my brother, so it would be too obviously a case of nepotism if TIT cooperated with Yang directly. The second reason for having a nominal developer was that it could resolve the issue of Yang's shortage of funds (Interview, Guang Yang, 29/06/2011).

To operationalise his second measure of having a nominal developer, Guang Yang used his network with other property developers in Local City. To make Yang and Guang Yang's collaboration less obvious and less sensitive, Guang Yang discussed the project with his old friend Ma, the owner of Harmony Property, and invited Ma to be the nominal developer for the reconstruction project. In fact, Guang Yang only borrowed the company name of Harmony Property; other than that, the whole operation was controlled by Yang's Property. Guang Yang recalled the arrangement:

Ma was a friend that I had known for years. Before Ma established Harmony Property, he was a management staffer in the tax office of Local City. I knew him when he worked in the tax office. He then worked as the manager in one of the tax office's subsidiaries, a tax management company. With the trend of privatisation, the tax management company was privatised and Ma became the owner of the company. He then started to conduct property-development projects. My only aim was to use Harmony Property's company name for this development project (Interview, Guang Yang, 10/11/2011).

Guang Yang's strategy of using Harmony Property's company name was successful in assisting Yang to overcome the land-access barrier, enabling the developer to have access to the land under Harmony's name as an established enterprise. Harmony Property was a solution to the land-access barrier, although the land was owned by TIT. This was because this arrangement could make Guang Yang's favourable terms to Yang's Property less obvious, therefore people would not doubt the competence of Yang's Property. Guang Yang used a similar strategy when Yang developed his fourth project, Peace, which will be discussed later in this chapter.

Guang Yang's third measure was to assist Yang to overcome the financial barrier by allowing the postponement of the land-use payment by Yang to TIT (Interview, Guang Yang, 29/06/2011). In the contract between Yang and TIT, it was stated that

Yang would pay for the land after completing the project and that payment would take the form of the constructed commercial units. The postponed payment and payment format of work in lieu of cash was very helpful to Yang, as he did not need to worry about having sufficient funds to make a payment when acquiring the piece of land. In Guang Yang's words, with this method, "there was no risk for Yang even if the project was unprofitable" (Interview, Guang Yang, 29/06/2011). After obtaining the land-use rights, Yang and Guang Yang agreed to reconstruct the old office building as a specialised wholesale market with commercial units. Yang explained that location was good for this type of development and it also met the market demand for commercial units (Interview, Yang, 01/07/2011).

Yang's success in overcoming the land-access and financial barriers in this first project was clearly a result of nepotism. Nepotism can be a useful way to overcome a barrier in the first instance, but credibility in the market is more difficult to sustain (Arasli et al., 2006; Vinton, 1998). Guang Yang assisted Yang only because Yang was his younger brother, not for any financial motive. It is doubtful that this could be repeated because then the nepotism involved would become too obvious and even in this first project the brothers thought it wise to use Harmony as a front to hide the role of their relationship in the project.

Other than the assistance received from Guang Yang, Yang also implemented other strategies in the construction and sales process to relieve his financial pressure (Interview, Yang, 01/07/2011). For example, Yang contracted a builder to construct the specialised wholesale market. In the contract with the builder, Yang required the builder to pay the construction expenses in advance. Yang related this requirement to the general context of China's construction market (Interview, Yang, 01/07/2011). At that time, there was a recession in the construction market, which meant that construction companies found it hard to make deals. In order to obtain some business, construction companies often paid expenses in advance. Therefore, Yang did not make any payment to the builder in advance.

The other factor contributing to relieving Yang's financial pressure was related to the sales strategies. In Yang's view, sales strategies were tailored to obtain funds as soon as possible (Interview, Yang, 01/07/2011). Because there was high demand for the

commercial units, consumers were willing to pay in advance to secure the property. Thus, one-third of the commercial units were sold off the plan and paid for immediately. The advance payments were then used to cover daily expenses incurred in construction.

Given the market demand and convenient location, this reconstruction project should have been profitable to Yang, but it was not. The problem was the building design. Here Yang fell into the same mistake as in trusting Gong. He engaged Duan's wife to do the design. Yang recalled:

Although I have maintained a fairly good personal relationship with Duan, I should not have used his wife as the designer, blindly. Duan's wife was a designer for projects such as factory buildings. She had no experience in designing such commercial buildings as a specialised wholesale market. The basis for selecting Duan's wife as the designer was purely on the basis of a good personal relationship with Duan. Owing to the undesirable design, only the commercial units on the ground floor were sold. Even until now, the remaining units have not been sold, so I have to rent out these unsold units (Interview, Yang, 01/07/2011).

Yang's trust in Duan's wife did not translate into good business performance. Instead, like Yang's trust in Gong, this trust in his associate's wife was an obstacle for the enterprise development. Yang's experience led him to neglect the fact that the construction design of houses is significant to property development. By the time he was interviewed for this research, Yang had learned this lesson and he emphasised that, "if there is no good design, no matter how well constructed the building is, it will be a waste" (Interview, Yang, 01/07/2011).

In the case of Yang's trust in Duan's wife, it showed that the networks and trust also had a dark side, and they may impede the development of an enterprise. The completion of this new commercial building did, however, establish Yang's credibility as a developer, so that he could subsequently obtain bank loans for his future projects. This further reveals that the link between overcoming land-access barriers may result in relieving or even resolving finance barriers. It also shows a high level of credibility of an enterprise can positively affect its capacity in addressing barriers.

4.4.2 Property-development project 2: Reconstruction of Century Group's old residential building B100

In 2004, Yang started his second property-development project, reconstructing one of Century's residential buildings, named B100. The piece of land where B100 was constructed was located next to Century Group's manufacturing plants and was a residential complex inhabited by Century Group employees. As mentioned, Century Group was a large pharmaceutical SOE in Local City.

This opportunity was also closely related to Guang Yang. In this second property-development project, the land-access barrier took two forms: the difficulty of obtaining land-use rights; and the difficulty of accessing land, as the former residents refused to leave the old residential units (Interview, Yang, 01/07/2011). In particular, the land-access barrier for Yang's second development project seemed to be related to three factors. The first factor was that while the profit gained from the first commercial building was enough to assist Yang's development as a credible entrepreneur, it could not fully support the whole project of building a new residential building (Interview, Yang, 01/07/2011). The second factor was that government policy changes on land supply and the existence of stronger competitors put Yang in a relatively more difficult position. As mentioned earlier, from 2003, the Ministry of Land and Resources of China enacted a series of policies aiming at reducing land supply and tightening control of land use. Guang Yang noted that, compared to larger property-development enterprises, Yang was at a disadvantage, as by 2004, many existing stronger property-development enterprises had already reserved land resources using the earlier less stringent regulations. This land could be held and used for their further development projects. These earlier enterprises also had stronger finance and social networks (Interview, Guang Yang, 29/06/2011). The third factor was that, after Yang finished the first property-development project, land prices began to increase dramatically in Local City and market competition often became furious.

The opportunity to develop the old residential building B100 was closely related to the change in government policies, and Guang Yang played a crucial role in the process of obtaining land. As with Yang's situation in Menyi Subsidiary, Sunshine

Lighting, and his first property-development project, opportunism seemed to play a vital role in his entrepreneurship. These opportunities were not obtained on a pre-planned basis, instead, as they happened to appear and Yang grasped them.

In particular, to overcome the barrier of obtaining legal land-use rights, Guang Yang assisted Yang through Guang Yang's reputation and influence in Century Group. Initially, the local government of Local City had planned to build a park on a piece of land near Century Group, and part of the land was where residential building B100 was located. Therefore, based on the initial government plan and in accordance with the local government control of land-use rights, Century Group should have had to remove the old building B100 from this piece of land, which meant that Century Group needed to find alternative accommodation for the former residents in B100.

Guang Yang recognised this as an opportunity, so he suggested to the Director of Century Group, Shi, that he would assist Century Group in obtaining the legal land-use rights to continue using the land, so that Century Group could then build a new workshop on part of the land. In return, Century Group agreed to transfer part of the land to Yang's Property (Interview, Guang Yang, 29/06/2011). Once again, Guang Yang managed to do this through his relationship with his old friend, Cai, the Director-General of Local City Construction Committee, who had collaborated with Yang in Dragon Property and assisted Yang in obtaining the licence for both Dragon Property as well as Yang's Property. In addition, Guang Yang also persuaded Shi to accept his proposal of exchange. Guang Yang recalled the process:

I think, in China, there is always some room in the policy that can be negotiated. So I discussed it with Cai and Shi separately. In order to provide Cai and Shi with incentives, I further proposed to establish a new company, inviting Cai and Shi to be the main shareholders (Interview, Guang Yang, 29/06/2011).

As a result, a new company was established, with Yang, Cai's son, and Shi's son as the three partners. During the negotiation process with Shi, Guang Yang had used his reputation as a guarantee to influence Century Group. Guang Yang was the actual person who operated this project, but as with the establishment of Dragon Property, he was not able to be the public face of the operation, so Yang became the person

who managed the project. Similar to the establishment of Dragon Property, Guang Yang, Cai, and Shi were the partners who stood backstage to support the new company. But Yang was the person in charge of the property-development company. Cai's son and Shi's son were the nominal partners of the company, and they did not participate in any management or decision-making. In return, Yang paid Cai's son and Shi's son a financial bonus of RMB 500,000 (US\$79,446) from the development of B100 (Interview, Guang Yang, 29/06/2011).

Even though Guang Yang successfully assisted Yang to overcome the barrier of obtaining land-use rights, the second form of land-access barrier emerged, because the former residents in B100 refused to leave the building. In Guang Yang's words, these residents refused, with the aim of receiving more compensation and benefits from the property developer (Interview, Guang Yang, 29/06/2011). It seems that there was a clash in thinking between the Century Group employees and Yang. As Guang Yang expressed it, the Century Group employees living in B100 had the "iron rice bowl" thinking, some of these residents had lived in B100 for years, so they felt they had the right of residence conferred by the State (Interview, Guang Yang, 29/06/2011). While Yang was more likely to have market-oriented thinking, in his view these former residents were not the owners but only the tenants of the units. So, they were not legally entitled to any extra compensation (Interview, Yang, 01/07/2011).

Yang's strategies in overcoming this barrier included imposing pressure on these former residents, while calming them down at the same time (Interview, Yang, 01/07/2011). A particular role was played by Ming, Secretary of the Party Committee in Century Group, in the process of imposing pressure on former residents (Interview, Guang Yang, 29/06/2011). Guang Yang maintained very a good personal relationship with Ming, as Guang Yang shared much common ground with him, such as similar personal beliefs (Interview, Guang Yang, 29/06/2011; Interview, Ming, 15/07/2011). Guang Yang recalled how Ming resolved the issue in the following way:

When this issue of former residents refusing to leave arose, Ming organised a meeting with division managers of Century Group. He emphasised in the meeting that this project was beneficial to Century Group, as the Group would receive a new manufacturing plant. Therefore, any behaviour against this project was considered behaviour opposing the best interests of the whole

Century Group. Ming further asked each division manager to identify employees who were against the project and remind them to take into account the Group's interests. If they still went against the project, Ming authorised division managers to ban these employees from working until they supported the project (Interview, Guang Yang, 29/06/2011).

The Party's motivation and personal motivations of the Party Committee Security were quite different on this issue. The Party seems to have put great emphasis on maintaining stability to obtain the manufacturing workshop from this project. Ming's personal motivation was more likely to assist Yang to successfully gain access to the land for his property-development project.

In addition to Ming's efforts, Yang also implemented some strategies to encourage these former residents to accept the changes calmly (Interview, Yang, 01/07/2011). Yang offered a price lower than the market price to the former residents who wanted to purchase a unit in B100. This was RMB1,400/sq m (US\$ 223/sq m), which was RMB 300/sq m (US\$ 48/sq m) lower than the market price. This strategy of offering an attractive price worked, as almost all the residents purchased new units in B100.

The elimination of the land-access barrier also combined the support from top management personnel, Ming and Yang's own efforts. It revealed the importance of networks with top management members of SOEs, or political connections, in overcoming barriers. In this case, the political connections with Ming contributed to the process of obtaining land.

When the land-access barrier was successfully overcome with Guang Yang and Ming's help, Yang invited a designer from a reputable Beijing company to design the project. It seems that Yang had learnt from his previous experience when undertaking the reconstruction of TIT's old office building. In Guang Yang's view, Yang's choice of this designer from Beijing had positive effects on the sales and profitability of the project (Interview, Guang Yang, 29/06/2011). Guang Yang recalled:

The design by the designer from Beijing was very good. The design was modern, which made the building stand out from other old residential buildings in this area (Interview, Guang Yang, 29/06/2011).

Although the modern design positively affected the sales performance, it could not completely eliminate the financial barrier for Yang. As previously discussed, he did not receive much profit from his first property-development project, the reconstruction of TIT's old office building. Therefore, when reconstructing the old residential building B100, Yang still had very limited funds. For this project, he paid Century Group for the acquisition of the land, which took up part of his available funds (Interview, Yang, 01/07/2011). In order to start the project B100, he used similar strategies to his first property-development project. Yang claimed that the following three main strategies were used to overcome the financial barriers (Interview, Yang, 01/07/2011).

First, most of the cash flow came from the advance payments of consumers purchasing both the commercial and residential units. Almost all the commercial units in B100 were sold off the plan during the period before construction started. As mentioned earlier, one-third of the residential units were purchased by the former residents of B100, and Yang required the former residents to make advance payments to secure the low price he offered in return for their acquiescence in the project (Interviews, Yang, 01/07/2011; 21/02/2012). In Guang Yang's view, these former residents of B100 were keen to purchase the new units and they were also willing to make advance payments (Interviews, Guang Yang, 29/06/2011; 28/05/2012). Guang Yang reported the first reason was that B100 was very close to the main manufacturing plants of Century Group. Many people had been used to living in areas next to their workplace, so they were personally attached to the location of B100. The second reason was that the lower price Yang offered would have been very attractive (Interview, Guang Yang, 29/06/2011).

The second main strategy Yang used to overcome the financial barriers to this project was to delay payment to the builder. Delaying payment required the builder to pay his expenses first. When interviewed, Yang provided an example to illustrate:

If I contracted with the construction company, I would undertake to pay 50 percent of the expenses according to the construction progress, the construction company would need to pay the other 50 percent. On completion, I would pay the rest of the total expenses. But for developers, at the time of completion, nearly all the units had been sold, so I can use the payments

received from customers to pay off the construction costs (Interview, Yang, 01/07/2011).

The third strategy Yang used was to obtain a bank loan. With Yang's track record, he obtained a bank loan for the B100 project; however, in Yang's words, "the amount was very small" (Interview, Yang, 01/07/2011). So the bank loan only contributed a small proportion to this property-development project, and it was not the main source of funds.

The reconstruction of old residential building B100 proved to be a success for Yang, who profited greatly from this project. However, the brothers had different views on the exact profit generated. Guang Yang said that Yang received a profit of around RMB 10 million (US\$1.6 million) (Interview, Guang Yang, 29/06/2011), and according to Yang, the profit was around RMB 7 million (US\$1.1 million). The project also showed Yang's capacity to build high-quality residential buildings and to overcome resistance from entrenched residents. It was a crucial advancement in establishing Yang's own creditability in Local City's property-development industry as someone who could see a project to completion and make a profit.

However, although Yang had made a profit from the reconstruction of the old residential building B100, in Guang Yang's view, this still did not give him enough to acquire a good piece of land in Local City (Interview, Guang Yang, 29/06/2011). This was especially the case when the Chinese government continued to impose increasingly tight controls on land supply. As mentioned earlier, in 2002, the Ministry of Land and Resources introduced *Provisions on Assignment of State-owned Construction Land Use Right through Bid Invitation, Auction and Quotation* (Ministry of Land and Resources, 2007, originally promulgated in 2002). This had created a significant land-access barrier for private property-development enterprises, particularly small- and medium-sized property-development enterprises. Without strong finance, Yang's Property could not bid successfully for any land at a public auction. Therefore, despite his success with the B100 project, the issue of how to obtain land for development continued to be a crucial obstacle for Yang.

After completing reconstruction of the building B100 in 2005, Yang did not embark on any other development projects until 2008 (Interview, Yang, 01/07/2011;

Interview, Guang Yang, 10/11/2011). The break was caused by the difficulty of obtaining land with limited funds (Interview, Guang Yang, 29/06/2011). However, Guang Yang thought this phenomenon was common to Chinese property developers. He used an old Chinese saying to illustrate this: *san nian bu kai zhang, kai zhang chi san nian*, which means “a business can still survive without transactions for three years, and if the business is successful in one transaction, the profit generated will be enough for the next three years” (Interview, Guang Yang, 10/11/2011). Guang Yang’s opinion reflects the reality that there was great profit generated from each property-development project.

4.4.3 Property-development project 3: Landscape

In 2005, a piece of land in one of Local City’s inner-city villages, Childer Village, was acquired by Guang Yang. Guang Yang acquired the land through an exchange of conditions with Han, the Childer Village Mayor, who was Guang Yang’s old friend (Interview, Guang Yang, 29/06/2011). At that time, Han sought to collaborate with TIT where Guang Yang was the General Manager, in order to build up this village-owned business under his control as village Mayor. The village-owned businesses were not profitable, so Han wanted to rely on TIT to create more profitable businesses by collaborating with TIT (Interview, Guang Yang, 29/06/2011). Guang Yang recalled the process of cooperation:

During a casual chat with me, Han asked me for advice on the possible cooperation. I proposed to build two specialised wholesale markets in Childer Village. This was because there was an increasing trend for specialised wholesale markets and Childer Village had large pieces of vacant land suitable for this purpose. After discussions, I, as the General Manager, decided that TIT would cooperate with Childer Village to establish two specialised wholesale markets, a stainless-steel market and an automobile-parts market. It was explicitly agreed by both parties that Childer Village would offer the vacant piece of land, and TIT would pay for the construction of the stainless-steel market, then both parties would share the profits evenly (Interview, Guang Yang, 29/06/2011).

The stainless-steel market proved to be very successful. All the commercial units were sold and the market was very profitable. As agreed, the profits were distributed evenly between Childer Village and TIT (Interview, Guang Yang, 29/06/2011). The second market was constructed under circumstances that enabled Guang Yang to

involve Yang and Yang's Property. At the outset, Childer Village refused to cooperate with TIT in the second specialised wholesale market, the automobile-parts market. Guang Yang analysed the reason for Childer Village's rejection of cooperation as, during the construction and sale of units in the stainless-steel market, Han realised that the specialised markets were actually very profitable. Therefore, instead of sharing profits with TIT, Childer Village wanted to establish and operate the automobile-parts market itself (Interview, Guang Yang, 29/06/2011). Guang Yang decided to accept this on the condition that the ownership of a piece of land was transferred to TIT.

Nominally, the piece of land was to be transferred to TIT, but in fact, Guang Yang wanted to reserve this piece of land for Yang, as Yang was facing obstacles in obtaining land for his property-development business (Interview, Guang Yang, 29/06/2011). In order to smoothly transfer the piece of land to Yang, Guang Yang decided to use the name of a subsidiary of TIT, Purity Mineral Water, to represent TIT in the discussion and negotiation process for obtaining the land. Guang Yang could not directly use Yang's Property during the discussion and negotiation process, as Yang's Property was a private company, and it was not owned or controlled by TIT. Guang Yang noted that this piece of land would be used to build a business hall for Purity Mineral Water. However, in Guang Yang's view, both he and Han were clear about Guang Yang's intention to obtain this piece of land for Yang's Property development (Interview, Guang Yang, 29/06/2011). Therefore, after meeting all the terms and conditions, Yang's Property replaced Purity Mineral Water and signed the contract with Childer Village.

Again, nepotism played a positive role in assisting Yang to overcome the land-access barrier. When Guang Yang saw the potential opportunity for Yang, he reserved it for Yang. In particular, the desire of the Village Mayor to change the condition of the arrangement between Childer Village and TIT gave Guang Yang the lever to achieve this, and thus to enabled Yang to overcome the land-access barrier. Although the way Guang Yang assisted Yang to overcome the barrier was to the disadvantage of TIT, as the company lost a piece of land through the arrangement, from Yang's perspective, it was an effective way to overcome the land-access barrier.

Owing to lack of funds, Yang did not start his third development project, named Landscape, until 2008, although the land was acquired in 2005. The main sources for funds used in developing Landscape were RMB 10 million (US\$1,589,420) profit retained from B100 and the profit obtained from building a road for a nearby district (Interview, Yang, 01/07/2011). In addition to the previous strategies to overcome financial barriers, Yang also sought ways to increase the plot ratio of the building to generate more profit (Interview, Yang, 01/07/2011). In order to increase the plot ratio, Yang used his personal network with the Secretary of the Bureau of Planning, Liu, to alter the initial plan of the building (Interview, Yang, 01/07/2011). Therefore, Yang succeeded in changing the initial three-storey building to a five-storey building. Yang's Property used the first three storeys to obtain the initial projected profit. They put the other two storeys to special use to increase the value of the development for future business.

Liu's action in allowing these changes to the plan to help his friend showed that policies at the local level remained flexible. Having maintained a personal network with government officials assisted Yang in obtaining more profit and enhancing business performance. The available information did not indicate whether his personal relationship with Liu was based on corruption. But, this relationship had been long term, as Liu noted in an interview for this research that she regarded herself as "a close friend of Yang" (Interview, Liu, 11/07/2011).

By 2008, Yang had obtained enough funds for the development of the land. However, as in the case of the reconstruction of B100, after obtaining the land-use rights, Yang's Property still could not access the land, as the villagers refused to leave. This situation became more difficult when Han resigned as Village Mayor of Childer Village in 2007 (Interview, Yang, 01/07/2011). In Guang Yang's view, Han's conflicts with the man who became new village Mayor caused his resignation. Guang Yang thought a further reason leading to Han's resignation was the claim that he had taken a large amount of bribes (Interview, Guang Yang, 29/06/2011). Han's resignation then affected Yang's Property. The new village Mayor believed that this piece of land was sold too cheaply, and therefore the new village Mayor pressured the villagers to stop the project construction. The official construction of Landscape

started in February 2008, then it was stopped by the villagers' occupying the land in a sit-in protest. It took about three months to restart the construction process.

When facing this issue, Yang used three main strategies. The first was to use his personal relationship with Duan, the Commander of the Local City Police Crime Squad to exert pressure on the villagers. Yang's Property had already obtained the legal land-use rights, so these villagers' behaviours were illegal as well as interfering with the regular business operation of the project. However, even Duan was not able to use violence as a means to resolve this dispute because they only wanted to obtain the land, rather than create big conflicts with the villagers and big troubles (Interview, Yang, 01/07/2011). He was, however, able to threaten these villagers in order to force them to stop protesting. Finally, around 70 policemen were sent to Childer Village, and some of the protest organisers were arrested.

The second strategy Yang used was to use his personal relationship with a gangster to terrify these villagers. This was similar to his first strategy, as the main purpose was to put pressure on the villagers. In response to the police and gangsters' intimidation, the villagers stopped the sit-in protest, but they still wanted to claim compensation from Yang. Once again, Yang used the carrot as well as the stick. In order to smooth the process, Yang also used a third strategy to calm the villagers, which was giving them some financial benefits. The money was not given in the form of formal compensation to the villagers. As this was vacant land at acquisition, there was no cause for compensation to be paid to villagers who lived on it. Instead, the financial benefits were given to calm these villagers down and stop them protesting. This third strategy was an effective one, as the main purpose of the villagers' protest was to obtain more financial benefits from the property developers and government (Interview, Yang, 01/07/2011). Perhaps surprisingly, Yang showed sympathy for villagers who wanted to claim more financial benefit or compensation from property developers, because he thought most profit generated from the sale of land was retained by local government while villagers were poorly compensated. Yang provided an example to explain his view of the situation:

Previously, land in inner-city villages was collectively owned by the village. The government could acquire the land at very low prices, such as RMB 100,000/mu⁵ (US\$15,894/mu), however, when the government sold the land to property developers, the selling price might become RMB 1 million/mu (US\$158,942/mu). Therefore, there was a huge price difference. I can use the land for Duke Villa as an example. The piece of land where Duke Villa is located was only part of the land that the local government acquired from the villagers. When acquiring the whole piece of land, the price was only RMB 60,000/mu (US\$9,536/mu). However, in 2011 the government sold the land at more than RMB 3.6 million/mu (US\$572,191/mu). These villagers realised the huge price difference in between and consequently wanted to claim more from the government and property developers (Interview, Yang, 01/07/2011).

By utilising these three strategies of using personal relationships with the Local City Police Crime Squad, using gangsters, and increasing compensation, almost three months after Yang initiated this property-development project, the construction of Landscape started. From this project, Yang also realised the great benefit of maintaining good personal relationships with the Local City's Police Crime Squad. Therefore, Yang provided Duan with 20 percent of Yang's Property shares as a gift (Interview, Yang, 01/07/2011).

The success of the Landscape project illustrates several elements that have been researched in entrepreneurship field. Guang Yang's identification of an opportunity and his willingness to use his influence at the expense of his employer, TIT, overcame threshold barriers. The types of personal networks involved were very different. Guang Yang's assistance was not based on any financial incentive and Yang did not give any financial benefit to Guang Yang. So Guang Yang was clearly still looking for potential opportunities to advance Yang's career. However, Yang's tie with Duan was mainly based on a financial return. Duan assisted him in overcoming the land-access barrier, and Yang gave the company shares in return. In terms of the company, Yang's Property had gradually built up a track record, which was beneficial to its future development. It did so by ruthless action and efficient use of influence and incentives.

When developing Landscape, Yang was able to overcome the financial barrier as a successful developer. Guang Yang realised the potential of the rapid increase in

⁵ Mu is a unit of measure used in China. 1 mu is equal to 667 square metres (sq m).

housing prices in China and suggested that Yang retain the fourth and fifth floors for people who had a good personal relationship with them and also for their future office (Interview, Guang Yang, 29/06/2011). Yang agreed with Guang Yang, so only the first three storeys were sold and this generated a profit of about RMB 8 million (US\$1,271,536). With the extension of the fourth and fifth floors, the final profit obtained from Landscape was around RMB 10 million (US\$1,589,420). The retention of the fourth and fifth storeys had a positive effect on reducing Yang's later expenses on renting offices. Yang set up the company's offices on the fifth storey of Landscape, which not only reduced his costs but made his office an advertisement for the company's success.

4.4.4 Property-development project 4: Peace

Yang's fourth property-development project was named Peace. It was a project including mixed-use residential and commercial units. The land was acquired by Guang Yang before his resignation from TIT in 2007 (Interview, Guang Yang, 29/06/2011). The land was where Sunshine Lighting was located and was owned by Axis Subdistrict Office of Local City and initially designated for commercial use (Interview, Guang Yang, 10/02/2012). In order to convert the commercial land to residential land, the property developer needed to go through a public auction and bidding process (Ministry of Land and Resources, 2007).

The acquisition of land followed a similar path to the Landscape project. As mentioned earlier in this chapter, Yang was the General Manager of Sunshine Lighting before he left TIT. Guang Yang explained that, in 2004, after Yang resigned from Sunshine Lighting, the financial performance of the factory became worse and worse (Interviews, Guang Yang, 29/06/2011; 10/02/2012). Sunshine Industry had a debt of RMB 1 million (US\$158,942). Part of the debt was rent owed to the owner of Sunshine Lighting, as Sunshine Lighting was a company rented to TIT. The other part of the debt was salary owed to employees. As the employees were not able to receive their salaries, they protested in front of the office building of TIT's parent company, Century Group. This was having a very negative effect on the stability of Century Group, as it affected its reputation. So Shi, the General Director of Century

Group, asked Guang Yang to resolve this issue immediately (Interview, Guang Yang, 29/06/2011).

Guang Yang's proposal to resolve this issue was to privatise Sunshine Lighting, a proposal which was supported by a 2004 government policy promoting the privatisation of China's collectively owned enterprises (Interview, Guang Yang, 10/11/2011). Guang Yang's detailed proposal for privatising Sunshine Lighting included the sale of all manufacturing equipment and the land where it was located. The gains from the sale were firstly used to pay employees' salaries and compensation. Then, RMB 1 million (US\$158,942) was paid to the owner of Sunshine Lighting. The owner of Sunshine Lighting agreed to Guang Yang's proposal, as the owner was able to collect the RMB 1 million (US\$158,942) rent plus some extra funds from the sale of manufacturing equipment and land (Interview, Guang Yang, 10/02/2012).

In order to realise this proposal, Guang Yang appointed the purchaser of the manufacturing equipment and the land. This was appreciated by Sunshine Lighting's owner, as the owner was afraid that no one would be interested, or that they would not be able to sell the equipment and land. This may show a huge difference in people's thinking at that time. The original owner did not realise the potential value of this piece of land (Interview, Guang Yang, 10/02/2012). Guang Yang's thinking was more market oriented, and with his existing personal relationships with other property developers, he believed that the land would bring a profit.

In fact, Guang Yang wanted to obtain this land for Yang's Property, but he was very clear that Yang's Property would not be able to pay around RMB 6 million (US\$953,652) immediately (Interviews, Guang Yang, 29/06/2011; 10/02/2012). So Guang Yang contacted Ma, the General Manager of Harmony Property, who had assisted Yang in his first property-development project. Guang Yang and Ma agreed to co-operate: Yang's Property, mainly Guang Yang, would be responsible for obtaining the land. Harmony Property's only responsibility would be to pay the RMB 6 million (US\$953,652) for the land. After that, Yang's Property would be in charge of the whole development process from designing to sales of the units, and

the final profit would be shared equally by both Yang's Property and Harmony Property.

During the acquisition of the land, another obstacle made the process more difficult. The relative of one government official made it known that he had the same intention, namely to purchase the land where Sunshine Lighting was located (Interviews, Guang Yang, 29/06/2011; 10/02/2012). In order to persuade this government official's relative to stop competing for this land, Guang Yang outlined the following reasons to the relative:

I emphasised that TIT was still renting Sunshine Lighting, so TIT still had the power and right to manage Sunshine Lighting, and we would not accept any external company entering this deal (Interviews, Guang Yang, 10/11/2011; 10/02/2012).

To complete the agreement, Yang gave financial benefits to this official's relative (Interview, Guang Yang, 10/11/2011). Guang Yang explained that the real aim of the government official's relative may not have been to obtain the land; it may have been purely to ask for some money from them. In his view, this was a common practice by which the families of officials benefited from the development process (Interview, Guang Yang, 10/11/2011). Once the financial incentive was paid, the relative finally agreed to withdraw from competing for the land.

With these strategies, Yang's Property was the only participant company during the public auction of land, therefore, it obtained the land-use rights. In the case of Peace, the land-access barrier was overcome with a win-win outcome to Yang and TIT, as well as Sunshine Lighting's owner. As mentioned earlier, Harmony Property paid a total amount of RMB 6 million (US\$953,652) as a nominal buyer of the land, and TIT was then responsible for purchasing the land. Guang Yang mentioned that this RMB 6 million (US\$953,652) not only paid off the RMB 1 million (US\$158,942) debt and the gains promised to Axis Subdistrict Office, but also provided TIT with a net gain of RMB 600,000 (US\$95,365).

In the case of Peace, the public auction of land was purely formalistic, as Yang's Property was the only bidder. This phenomenon not only happened to Yang's Property, it had happened to other property developers, such as Wisdom Property, which is

addressed in the second case study of this research. There is a Chinese saying to address the issue of formalism: *shang you zheng ce, xia you dui ce*, which means “the higher authorities have policies while the localities have their countermeasures”. It also suggests that Chinese entrepreneurs always come up with countermeasures to government policies to benefit themselves.

After the successful sale of Peace, Axis Subdistrict Office started to sell other pieces of land in their area after obtaining the profit from the Peace development project. The Peace project was reported in the local media:

The old factory building was now turned into modern apartment units... Removal and reconstruction of old factory buildings in Axis Subdistrict had brought more development opportunities for Axis Subdistrict (*Local City News Net*, 26/10/2009).⁶

However, the solution to barriers to land access did not guarantee that there would be sufficient funds for the construction process. In 2009, when Peace was built, Yang had financial difficulty (Interview, Yang, 01/07/2011). Yang said that advance payments were still the main method of overcoming the financial barrier (Interview, Yang, 01/07/2011). In this case, Yang succeeded by selling both residential and commercial units before the construction started. The advance payments were then used to cover various expenses incurred during the construction process.

Four factors led to the quick sale of all Peace’s units before the construction started. A convenient location was the first factor, as Peace was located in the central business district (CBD) of Baojiang District. The second factor was that the buildings were well designed. Yang had learned the importance of design from the reconstruction of TIT’s old office building. Therefore, instead of employing designers through personal networks, Yang again employed experienced designers from Beijing, which proved to be a success (Interview, Yang, 01/07/2011). The third factor was related to the social and economic environment in Local City. In 2004, mixed-use commercial and residential units were very popular in Local City. Therefore, the design of Peace met a current demand. The last contributing factor

⁶ To maintain the anonymity of the company, the exact date and web address of the newspaper report is not given.

was the sales methods used by Yang. Instead of establishing a sales department, Yang outsourced the sales to an external experienced sales company. The sales company was in charge of the whole selling process from advertisement design to final sales. In Yang's view, having an external sales company may have been less expensive than establishing a sales department, and new sales staff would have lacked the experience needed (Interview, Yang, 01/07/2011).

As Yang's Property became more successful, it also became more professional. Although it still relied heavily on reputation, it was also starting to rely on recognition of its capacity to provide quality services. So in the case of Peace construction, decisions were different from previous property-development projects. For instance, the main consideration when selecting construction companies was not whether the payments could be delayed or reduced through personal networks. Yang's Property selected more professional builders rather than choosing friends offering the lowest price. This change was largely related to the strong financial support from Harmony Property as well as the capital accumulation of Yang's Property. Therefore, more attention was paid to the construction qualifications and construction quality of builders, while payment timing and methods received less attention. Instead of Yang searching for builders who would accept late payment, now builders were bidding to construct the project for Yang. These builders saw that successful construction for a reputable company would be beneficial to their own reputations.

Thus, Peace was also a successful property-development project. The final profit was around RMB 8 million (US\$1,271,536). Therefore, each of Yang and Harmony Property obtained a profit of RMB 4 million (US\$635,768). Peace built Yang's Property's reputation further. It may also indicate that the solution to the land-access barrier could simultaneously be a way to overcome the financial barrier because once the property developer obtained land, they could then receive prepayments from consumers and/or apply for bank loans.

4.4.5 Property-development project 5: Duke Villa

Almost at the same time that Yang was developing Peace, he saw an opportunity to obtain another piece of land, which was where Duke Villa was developed. Duke

Villa was designed to be a collection of villas in Lancun District in Local City. Yang had already built a road for Lancun District. Part of the payment was in the form of transferring the land-use rights for an old abandoned school to Yang's Property for property development, and the other part of payment was RMB 6 million (US\$953,652) cash (Interview, Yang, 01/07/2011).

Two people particularly assisted Yang to take this opportunity, the District Mayor and Deputy District Mayor of Lancun District. The Deputy District Mayor in charge of urban construction, Zheng, was Duan's good friend, Zheng. Duan introduced Yang to Zheng when Zheng needed someone to undertake the road construction. Yang recalled:

Before I constructed the road for the district government, both the district government and I were aware that the district government did not have sufficient funds to pay for the construction in full. So I proposed that the district government only pay RMB 6 million (US\$953,652) in cash to me and the rest of the payment could be made by transferring a piece of land to me, which was the abandoned school in Lancun District (Interview, Yang, 01/07/2011).

Zheng agreed to Yang's proposal. However, it had to be approved by the District Mayor. Guang Yang explained that the District Mayor was one of his friends, so he explained his relationship with Yang to the District Mayor. The Mayor then approved Yang as the builder for that road (Interview, Guang Yang, 29/06/2011).

After obtaining the land-use rights, Yang's Property met the familiar land-access barrier of villagers opposing the development. Although Yang's Property had obtained the official and legal land-use rights from the government, the villagers stopped them from gaining access to the land for construction (Interview, Yang, 01/07/2011). As mentioned earlier, the main reason was that the villagers recognised a significant price difference in the compensation they received and the final land price. Once again, the stick and carrot approach worked. This included pressure applied by Duan and a gangster together with an extra amount of financial compensation paid by Yang's Property to the villagers.

In the case of Duke Villa, more funds than ever before were needed, as it was designed to be a village of luxury villas (Interview, Xia, 04/07/2011). Therefore, Yang's own funds were not enough to cover the construction costs. In order to overcome this financial barrier, Xia, the General Manager of Yang's Property,

recalled the development of a new approach for Yang's Property: the use of mendacious mortgage loans (Interview, Xia, 04/07/2011). Xia further explained how the mendacious mortgage loans worked to generate more funds:

The mendacious mortgage loans were mainly operated with Yang's relatives or close friends who had purchased the commercial units in Landscape. Yang talked with these people and asked them to apply for mortgages from the banks. In particular, 70 percent of the selling price of a commercial unit was put as a mortgage loan from bank, and the monthly repayments were made by Yang's Property. Thus, with several relatives or close friends receiving mortgage loans from banks, Yang's Property obtained some funds that would smooth its operation. The amounts involved were about RMB 400,000 (US\$64,344) (Interview, Xia, 04/07/2011).

However, the amount of the mendacious mortgage loans may only have been sufficient to maintain the business operations, which would not be enough for a new property-development project. At the time of writing up this research, Yang was still in the process of overcoming the financial barriers to this project. In order to pay off the builder and complete the construction, he managed to obtain bank loans and borrowed funds from his relatives and close friends with a total of around RMB 40 million (US\$6.4 million). However, no villa had yet been sold. How he would repay the borrowings and how he would finally overcome the financial barrier remained a question.

This financial barrier may be partly related to Yang's overconfidence and overestimation of the property-development market. Guang Yang noted that he had different views from Yang: "I insisted that Yang should not develop this piece of land, as China's property market was not as active as before" (Interview, Guang Yang, 06/03/2012). However, it seemed that Yang was complacent about his previous performance and was determined to develop Duke Villa. Guang Yang put it in this way, "... I had tried every possible way to stop Yang from developing Duke Villa, but he did not listen to my suggestion" (Interview, Guang Yang, 06/03/2012). In the case of Duke Villa, Yang's attitude towards Guang Yang seems to have had changed. This may show that he was complacent after being successful in previous projects and no longer willing to listen to his elder brother's advice.

The previous sections have discussed the land-access and financial barriers that occurred in each of Yang's property developments. In each case, the barriers were

different. Section 4.5 addresses the exact nature of regulatory barriers that occurred in Yang's case and how they overcame them. Investigating regulatory barriers in a separate section is mainly because Yang's Property met these difficulties arising from regulations in almost every single project. The situations where these barriers occurred were very similar in each project. Discussing them in a separate section rather than in each project could avoid repetitiveness.

4.5 Regulatory barriers

During interviews, Yang explained that regulatory barriers were the greatest barriers to his career as a property developer and it happened in almost every single project (Interview, Yang, 01/07/2011). On the basis of his experience, Yang classified regulatory barriers in two categories: a lengthy application process, and lack of transparency in government policies. In China's property development industry, local government departments still retained great flexibility in enacting some policies and the applications took long time. For one property-development project, Yang needed to obtain more than 30 permissions from different government departments, such as the Municipal Bureau of Land and Resources, Municipal Commission of Housing and Urban-Rural Development, Earthquake Administration, and Bureau of Water Resources (Interview, Yang, 01/07/2011). For example, the Housing and Urban-rural Layout Construction Committee managed various departments, and Yang's Property had to obtain permissions from each of these departments to start construction. Whether Yang's Property could obtain permissions from government or not, the length of processing time had a significant impact on development and profitability. Yang said that it usually needed one year to obtain all the permissions from different government departments for each property-development project (Interview, Yang, 01/07/011).

The other barrier that affected Yang's property's development was the lack of transparency of government policies. It was, for instance, required that property-development enterprises comply with relevant policies on seismic resistance and disaster prevention, fire control, environmental protection, energy saving, and protection of historical relics (China Law Press 2011). However, the state policies only provided general guidance and local government had the right to set detailed polices based on state policies. However, these local policies were far from clear to property-

development enterprises. When interviewed, Yang gave the following example:

For example, such government bodies as the Seismological Bureau and Bureau of Cultural Relics allowed some flexibility in enacting policies at state level. They set extra guidance or procedures at local level but local officials can implement them as they see fit within reason. Yet, these guidelines or procedures were not published or shown to property developers. In particular, prior to the construction of property-development projects, the Seismological Bureau and Bureau of Cultural Relics did not notify us about procedures and guidance that we should follow. But during the construction process, these government bodies sent penalty charges to us for not following required guidance and procedures (Interview, Yang, 01/07/2011).

In order to smooth the construction process, it was essential that personal relationships with relevant government officials were drawn on. Yang explained that this was common practice and provided the government official in charge with opportunities for corruption. At the lowest level, this included gift giving, and treating officials to lavish dinners (Interview, Yang, 01/07/2011). But as we have seen in Yang's Property projects, it could easily extend to indirect and direct payments.

Yang used policies required by the local Bureau of Meteorology as an example to further illustrate this issue of the lack of transparency of government policies. The Bureau of Meteorology required lightning protection equipment to be installed on buildings. It was a mandatory policy that property developers needed to purchase materials from the local Bureau of Meteorology for lightning protection. In Yang's words, "the main problem was that the prices of is equipment was 20 to 30 times the market prices" (Interview, Yang, 01/07/2011). Yang seemed to be indicating that the government officials were benefiting personally. This was because, in Yang's words, "the government officials knew this equipment was far more over-priced but they were still keen to implement these policies" (Interview, Yang, 01/07/2011). Yang further complained that the state or local Bureau of Meteorology should have set a standard for the materials to be used by property developers, and then property developers could select from the market as long as the material quality reached the standard. Purchasing material from the market usually resulted in a more competitive price, which may not have had much impact on the cost of production. However, purchasing materials from government bodies at such a high price increased the cost of production significantly (Interview, Yang, 01/07/2011). Yang also claimed that lightning-protection equipment was not the only area where equipment was supplied by government bodies. Similar problems also occurred with water, electricity, and cable television supplies (Interview,

Yang, 01/07/2011).

In Yang's view, "when facing this kind barrier, there was no other choice except purchasing and utilising the materials from the government bodies" (Interview, Yang, 01/07/2011). If property developers did not use materials provided by the local Bureau of Meteorology, the buildings could not pass the Bureau's assessment and therefore the project could not be started. This was also the case for water and electricity supplies. If property developers did not use the materials provided, there would be no water and electricity supply for the buildings. However, the direct effect was that the cost of construction increased dramatically. The increase in construction costs was then included in the sale price and transferred to consumers (Interview, Yang, 01/07/2011).

4.6 Summary

This chapter presented the first case story narrative which constitutes the information base for this thesis. The narrative started with the examination of Yang's personal development and his early work experience before establishing Yang's Property. It also discussed the barriers Yang's Property met in each property-development project and highlighted the key themes. Table 4.7 summarises the key themes and subthemes emerging from the case narratives. It is worth noting that the majority of barriers that Yang's Property met were addressed by the networks Yang's brother had with government officials. These networks can promote the development of enterprises within the network, but can also limit enterprises that do not come from the networks, as this network prevented business opportunities through channelling business networks to a small number of people within the networks. This network is then a disincentive to innovation and enterprise.

Table 4.7 Summary of thematic analysis for Yang's Property

Theme	Sub theme	Quote
Personal development	Accumulating market knowledge	Work experience
		Learn about market activity
		Market knowledge
		Management experience
		Previous accumulation of market and management knowledge
		Experience of the operation of Dragon Property
		Previous experience when undertaking TIT's old office building
	Personal traits	Persistence
		Patient in the face of hardship
		Optimistic and actively seeking solutions to obstacles
		Always sought change and improvement
		Ambition and business sense
	Other	Risk-adverse and confident (personal traits for success)
		Role model of Yang's mother
		Brotherhood
		Father's authority and training opportunity
		More market-oriented concept (business success factor)
Flexibility	Improve his management skills	
	Awareness of market opportunities	
	Purchasing and using the materials from the government bodies	
	Always came up with countermeasures to government policies to benefit themselves	
Innovation		Innovation
Opportunistic		"Creative response"
		Opportunistic approach
		Change to property-development industry was opportunistic
Networking	Personal network with management staff member in SOEs	Opportunity to develop the old residential building B100
		Yang saw an opportunity for Duke Villa
		Communicating with management staff from Shenxi
		Establish and maintain good communication with management staff in Shenxi
		Managerial ties with executives at Shenxi (focused business networking)
		Support from top management (due to relationship)
		Used his network with management personnel such as Lang and Zong
		Maintaining good personal network with top management personnel
		Good networks with executives in Century Group's finance department
		Personal relationship with Ming

Product quality	Personal network with government officials	Personal relationship with Wang and long-lasting collaboration Personal networks in the provincial and local Bureau of Quality and Technology Supervision Guang Yang's personal network with Cai (personal network with government officials) Personal relationship with relevant government officials Personal network with the secretary of the Bureau of Planning Maintained personal network with government officials Personal relationship with Duan, the Commander of the Local City Police Crime Squad Zheng's good friend: the District Mayor Guang Yang's old friend: Childer Village Mayor
	Trust and reputation	Worth trusting Personal creditability and relationships Negative effect of trust: Yang's trust in Gong, Duan's wife Guang Yang's reputation
	Relationship with family member and nepotism	Nepotism Assistance from Guang Yang (received assistance from family member) Guang Yang's thinking was more market-oriented
		Quality: competitive advantage
		Price and quality
		Excellent product quality
		Extend its product range and differentiate
		Formation of his later business strategies to overcome barrier (specific steps to make him and the business successful)
		Preparation strategy
		Familiar strategy (managerial strategy)
Entrepreneurial/managerial strategy		Sales strategies
		Using Harmony Property's company name
		Limiting development (economic environment impact)
		Incubator organisation
		Lack of structured management team
Others		Lack of research and development and insufficient competitiveness
		Financial benefit to villagers
		Financial benefit to this official's relatives

The next two chapters present the second and third case narratives for this research, Wisdom Property and East Property. They will follow a similar format to this chapter.

Chapter 5 Property-development case 2: Wisdom Property

5.1 Introduction

This chapter is the second of the three chapters investigating how specific Chinese private property-development enterprises overcame barriers to success. In Chapter 4, I examined the development of Yang's Property as well as the business strategies used to overcome the land-access, financial, and regulatory barriers identified from international research findings in Chapter 2 as likely barriers to property-development enterprises in China. Unlike Yang, who had no previous experience in the property-development industry at the time of establishing Yang's Property, the founders of Wisdom Property⁷ had been in the architecture design industry, a property-development-related industry for years before they established Wisdom Property. With their experience as architectural designers, the two founders had extensive knowledge about the operation of the property-development industry, which had positive impacts on their decision-making and management.

Following the pattern set in Chapter 4, this chapter starts with an overview of the company profile and the process of obtaining access to the key informants. Section 5.3 examines the entrepreneurs', Jiao and Tang's, previous work experience. A large part of the company's success was due to its leadership. In this regards, the contribution of the founders, Jiao and Tang, was significant. Their skills may have been accumulated through their career experience.

This chapter uses a chronological account to investigate Wisdom Property's establishment and its property-development projects to find out barriers they met and methods they used to address them. This establishment process is significant because the way Wisdom Property was established may have had an impact on how the company developed, as well as on the strategies used to overcome barriers. As with Chapter 4, the discussion of Wisdom Property illustrates the main themes, including being flexible, networking, and entrepreneurial strategies.

⁷ As with the previous chapter, names of individuals, organisations, companies, and places are pseudonyms. Also for reasons of anonymity, the exact company website is not provided here.

5.2 Company profile of Wisdom Property and key informants of the case

Table 5.1 presents the company profile of Wisdom Property. From 1993, Wisdom Property conducted 13 projects, with three being constructed at the time of my field trips. Wisdom Property's company structure is more organised, including separate departments such as Accounting and Finance Department, Sales Department, and HR Department. The annual revenue of the company was constant during the past five years as of 2011.

Table 5.1 Company profile of Wisdom Property

Year of establishment	Number of projects by 2011	Number of employees	Annual revenue of the past five years
1993	13 projects, including three projects being built	Around 110 full-time employees.	Around RMB 300,000,000 to RMB 450,000,000 (US\$48,986,789 to US\$73,480,184) per annum.

Sources: Wisdom Property (2009a); Interview with Tang (05/07/2011); Interview with Jiao (11/07/2011).

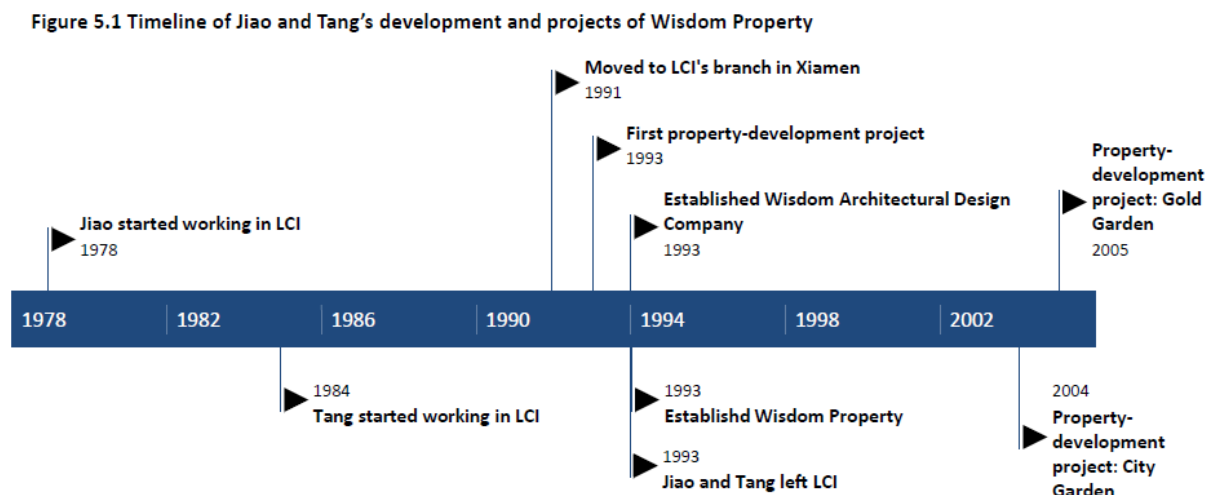
The investigation of Wisdom Property relied heavily on the entrepreneurs' accounts, and publicly available information and company documents also contributed to the study. As with Yang's Property, the initial contact with Tang and Jiao started in early 2010 through one of my personal contacts. The conversations were personal and not for the purpose of this research, however, the entrepreneurs started to know and trust me as a researcher, which helped the following data collection in field trips. In addition to the in-depth interviews with key participants, I also collected information from Wisdom Property's well-constructed company website and newspaper articles as well as the Wisdom Property's company documents. It is worth noting that the trust established with the entrepreneurs was helpful in collecting company documents that were not publicly available.

In order to obtain deep insights into the operation of Wisdom Property, I interviewed the key informants on various occasions to ensure the information was complete and accurate. The key informants included:

- Jiao, General Director of Wisdom Property. Jiao and Tang were the company owners and in charge of the Wisdom Property.

- Tang, General Manager of Wisdom Property.
- Bian, General Manager of Bian Accountants. Although Bian was not directly involved in Wisdom Property, he was experienced in dealing with financial issues of property-development enterprises.
- Wei, Deputy General Manager of Wisdom Property. Wei was responsible for the daily operation of Wisdom Property. He was in charge of issues such as HRM.

Their significance as informants arises from their close association with the company and its activities. They were the key actors in the narrative of Wisdom Property's establishment and have unique insights into the process by which the barriers to effective operation were addressed. Figure 5.1 highlights the key events during Jiao and Tang's personal development and the property-development projects to be discussed in this chapter.



5.3 Jiao and Tang's previous work experience before establishing Wisdom Property

Wisdom Property evolved from Wisdom Architectural Design, an architecture design company established in March 1993 by Jiao and Tang. Prior to its establishment, Jiao and Tang were designers in a state-owned architecture design institute, the Local City Institute (LCI) established in 1961. Jiao and Tang's work experience in the LCI was crucial to the development of their own company, as it enabled them to meet and build up business ties with several clients, who then provided funds when they were establishing Wisdom Architectural Design and Wisdom Property. An additional reason

why this experience was important is that the status Jiao gained during his time with the LCI stimulated the establishment of Wisdom Architectural Design, which then provided the opportunity for establishing Wisdom Property.

The LCI was established in 1961. It was one of the first institutes in Local Province to obtain the Engineering Design Integrated Qualification Class-B Certificate (Local City Institute, 2010a). The Certificate attested the Institute had strong architectural design capacity in 21 industries, including infrastructure and public irrigation (Ministry of Housing and Urban-Rural Development of the People's Republic of China, 2007). At that time, it placed the LCI at the forefront in architectural design industry in China.

Jiao had worked for the LCI from 1978. By 1991 he had already been promoted to the Deputy General Director of the LCI. This was the highest position in the LCI after the General Director. The Deputy General Director and the Chief Engineer together were responsible for the daily operation of various departments of the LCI and its design offices and branches (Local City Institute, 2010b). Tang, who was seven years younger than Jiao, was a subordinate to Jiao. Tang started work at the LCI after his graduation from an architectural design university in 1984 (Wisdom Architectural Design, 2009a).

In 1991, Jiao was appointed by the General Director of the LCI to act as the General Director and Chief Architect of the LCI's branch in Xiamen. Compared to Jiao's position of Deputy General Director in the LCI, the position of General Director of Xiamen Branch Institute (XBI) may have been more challenging for two reasons. First, although XBI was not a new branch, it performed poorly and was in serious debt. Jiao recalled that XBI had no existing contracts or even offices, and it was in serious debt. Jiao's view was that the General Director of the LCI "purposely" sent him to Xiamen expecting him to fail (Interview, Jiao, 11/07/2011). In Jiao's words:

At that time, there was a possibility that I would be promoted to replace the General Director of the LCI. Thus, the current General Director of the LCI wanted to send me to Xiamen, a poorly performing branch institute, in order to make me less competitive with him. The General Director of the LCI must have been aware of XBI's difficult situation, so I guess that the General Director wanted to create obstacles to my promotion by handing the unprofitable XBI to me (Interview, Jiao, 11/07/2011).

The second reason why this position was more challenging was the different market environment in Local City and Xiamen. Xiamen had more features of a market-oriented economy, as it was one of the six Special Economic Zones in China with economic focus on imports and exports of manufacturing goods. Compared to Xiamen, Local City may have had more planned-economy features. Therefore, this new position could require adaptability to the new market environment in Xiamen. Therefore, the move to Xiamen was potentially a career setback for Jiao in terms of his progress through the bureaucracy. In terms of the opportunities it gave him to develop the capacity required for being an entrepreneur it had considerable potential. A setback of some sort is often an opportunity for an individual to take a new path, so it contributes to their becoming entrepreneurial. Without this, Jiao might have stayed a bureaucrat awaiting his turn as Director and doing nothing new.

In response to this appointment, Jiao had no other choice but to accept because under the LCI's hierarchical structure, he had no power to act against the General Director. This reflects the situation explained by Fang and Hall, where they argue that "Chinese management culture inherits the respect for hierarchy and authority from its national culture" (2003, p. 13). The LCI permitted Jiao to select one assistant from its central staff. Jiao chose 28-year-old Tang as his assistant because he thought Tang was an impartial person; and this was a very important characteristic in view of the politics involved (Interview, Jiao, 11/07/2011). Jiao recalled:

I selected Tang as my assistant in XBI, as I thought that Tang was a skilled member of staff. More importantly, I attached great importance to the personal traits of my subordinates. I believed that Tang was an impartial person. Therefore, Tang should be able to have sound judgement towards issues arising during the development of XBI (Interview, Jiao, 11/07/2011).

What Jiao was suggesting here was that Tang was his trusted colleague and that his presence would improve XBI's performance. Jiao believed that Tang was competent in both architectural design and cost control, and that they shared similar thinking, which may have made the operation easier. This indicates Jiao had strong capacity to judge employees, which is necessary for operating businesses.

When Jiao and Tang arrived at XBI, they faced a very difficult situation. The branch institute was unprofitable with various debts to different parties. Jiao recalled:

XBI owed telephone charges, rents and payments to several suppliers. After clearing all debts owed, XBI only had RMB 7,000 (US\$1,110) left in the company account. What made XBI's situation worse was that the LCI announced that it would no longer provide any funds to XBI and XBI must take full responsibility for its own profit and loss (Interview, Jiao, 11/07/2011).

When overcoming the barrier of lack of funds, Jiao and Tang's similar personal characteristics seem to have played a significant role. In Jiao's view, both he and Tang were strong-minded and persistent (Interview, Jiao, 11/07/2011). In particular, Jiao faced the possibility of a serious loss of face, which he understated in recalling that "it would be a shame if XBI collapsed under my management". With no premises and no staff, XBI hardly existed when they arrived (Interview, Jiao, 11/07/2011). Clearly, Tang and Jiao's compatibility played a significant role in this early period. They were determined that they would seek ways to make XBI survive and develop. This determination and persistence continued even they were working in difficult situations in XBI.

In order to survive and improve XBI's performance, Jiao and Tang also adopted a proactive approach. Rather than waiting for work to come to them, they started to attend and bid for newly announced projects. This was a new approach for XBI, which had previously been content to wait passively for clients to come. Jiao recalled that "... we went to nearly every single bidding during that period of time and we needed to compete with architects from Hong Kong and Taiwan..." (Interview, Jiao, 11/07/2011). This approach paid off because they successfully obtained their first project. Jiao and Tang's first project in Xiamen was Jade Plaza. It had around 32 floors and a total building area of 45,000 square metres (sq m). It was a large project, especially for people who came from a less-developed city. Jiao acted as the architect and Tang was the structural engineer for the project. Because they were working by themselves, Jiao and Tang put much hard work in during that period. Jiao even referred to that time as the "most difficult period in my life", as the work environment was very poor and they worked very long hours (Interview, Jiao, 11/07/2011). Because XBI was unprofitable, Jiao and Tang did not have enough funds to rent a proper office. They rented a very small airless room in the basement of a residential building as their office. Xiamen was hot all year around, especially in summer. They could not afford an air conditioner and could not use a normal electric fan as they had many draft blueprints on the desk, which were easily blown around by a fan. Therefore, Jiao and Tang were often soaked in sweat.

In order to keep the blueprints clean and tidy, they purchased a tiny electric fan and hung it overhead to make sure their sweat would not drop on the blueprints. They also bought a hair dryer to dry the blueprints which were getting soaked by their sweat.

Insufficient rest time also contributed to the poor work environment in XBI. The client who commissioned the design for Jade Plaza was from Hong Kong and was used to operating in a competitive, market-oriented environment. Business people in Hong Kong were used to staying up late and waking up late in the morning to maximise business opportunities, whereas staff of the state-owned organisations such as Jiao and Tang were used to keeping regular office hours. This client would often call Jiao and Tang at 2.00am to discuss the blueprint. In order to succeed in making this deal on Jade Plaza, Jiao and Tang were forced to get up at 2.00am to meet the client and explain the blueprint to him. It might already be 4.00am when they returned to the office from meeting the client. Jiao and Tang would then sleep for several hours before they got up for their regular working day at about 7.30am (Interview, Jiao, 11/07/2011).

Despite these difficulties, Jiao and Tang provided the client with the feasibility report within just one week, compared to the three to four weeks for finishing feasibility reports other competitors needed (Interview, Jiao, 11/07/2011). When working on the feasibility report, Jiao was mainly responsible for drawing up the blueprint for the project; Tang worked more on gathering information on materials and prices. Tang further calculated the costs, sales, and profits that XBI could earn from this project. This forced them to develop a new way of working for clients in a more market-oriented environment, where clients required feasibility reports to be produced in a shorter time.

The result turned out to be positive, and the client was very satisfied with the work done by XBI, which was in fact only Jiao and Tang. Jiao recalled:

We have put many names on the front cover of the feasibility report to client of Jade Plaza. This was to give the client the impression that XBI was a well-organised institute with strong competency. However, all the work was done by me and Tang without any support from the LCI or other people (Interview, Jiao, 11/07/2011).

Jade Plaza was a great success for Jiao and Tang, and it saved XBI from being closed down. This project also generated sufficient profit to pay off the branch's debts. In the follow two years after successfully completing Jade Plaza, Jiao and Tang drew up

designs for several other projects in Xiamen, which significantly improved the profitability of XBI.

This success in Jade Plaza was largely related to Jiao and Tang's ability to adapt to changes. There was a great difference between the planned-economy environment of Local City and the more market-oriented environment of Xiamen. Jiao and Tang's common personal traits made them persistent in improving the performance of XBI. Their ability in adapting to the market contributed to the improved financial performance.

In order to gain sustainable development, Jiao and Tang used the profits obtained from these design projects to purchase a proper office and cars for XBI. Jiao recalled:

The assets of XBI increased dramatically as we made profits from our design projects. The profits were not retained for my and Tang's personal use. Instead, we bought office buildings and cars for XBI. And the value of an office building has increased as the housing price in China has increased quite a bit (Interview, Jiao, 11/07/2011).

However, the improved performance in XBI did not offer Jiao and Tang increased career opportunities in the LCI. When he realised XBI had started to be profitable, the General Director of the LCI replaced Jiao with one of his own trusted colleague. Jiao then had to return to the LCI. Jiao recalled:

When XBI was unprofitable, the General Director of the LCI did not care about our operation. However, after profit was realised, the General Director had the thought to appoint his own trusted follower who was more easily controlled as the director of XBI. Another reason why the General Director wanted to force me to leave XBI was that he felt his ability and position were threatened by our outstanding performance in Xiamen. As I led XBI to realise profits, the leader of the LCI may have felt that I was more competent than him and could be a strong competitor against him (Interview, Jiao, 11/07/2011).

Given his unfair treatment, Jiao considered resigning from the LCI. His view was that in this situation he was "forced to leave the LCI" (Interview, Jiao, 11/07/2011). When interviewed, Jiao mentioned several incidents that made him realise this need to leave (Interview, Jiao, 11/07/2011). In 1992, owing to the outstanding performance of XBI, the Mayor of Local City organised a seminar with the aim of presenting the lessons from the successful experience of XBI. In view of their role in this success, Jiao felt he and Tang should be the main participants in presenting the seminar, as XBI had such

good performance under their management (Interview, Jiao, 11/07/2011). However, the reality was that the General Director of the LCI had not informed them about the seminar. Jiao recalled:

At the seminar, the General Director even told the Mayor that Tang and I were on vacation. But the Mayor had known us so he insisted on meeting us. With the Mayor's persistence, the General Director of the LCI sent a staff member to inform Tang and I about the seminar. Even though we attended the seminar, I felt that I was an "unnecessary person" in the General Director's mind (Interview, Jiao, 28/02/2012).

Jiao also felt that the General Director was determined to damage his career. After the seminar, the General Director of the LCI sent one of his trusted colleagues to the local People's Procuratorate, claiming that Jiao had appropriated XBI's funds for his own private company. In particular, the General Director of the LCI claimed that Jiao had used the LCI's funds to purchase his own houses in Xiamen. The local People's Procuratorate then sent staff to XBI to examine all the accounts and expenses, but they did not find any suspicious transactions, such as appropriation of public funds on Jiao's part. On the contrary, the staff from the People's Procuratorate realised that the dining expenses incurred during the two years of Jiao and Tang's management were very low, only RMB 9,000 (US\$1,413). The real estate properties purchased were all under the LCI's name. In Jiao's view, the value of these real estate properties would definitely increase, so they were a potential source of ongoing profits for XBI. When interviewed, Jiao said that this General Director's behaviour was "really disappointing" to him (Interview, Jiao, 11/07/2011). It is clear, however, that Jiao was also seeing the situation in comparative terms. As he put it:

Tang and I did not take any public funds for our own use. In contrast, the General Director and his followers retained at least RMB 1 million (US\$157,020) for their own use (Interview, Jiao, 11/07/2011).

This situation may reveal that Jiao's relationship with the General Director of LCI was a product of politics of Chinese SOEs. Jiao and the General Director were in a competitive context and it could be seen from Jiao's accounts that the General Director believed Jiao's managerial abilities were a threat to his position. This relationship between Jiao and the General Director confirmed the results of existing academic research. For example, Tjosvold (1985) investigated power and social context in superior-subordinate interaction by making 90 undergraduates managers with either

high-level or low-level power who believed their goals were cooperatively, individualistically, or competitively related to their subordinates. Tjosvold (1985, p. 10) concludes that in a competitive or individualistic context, superiors failed to give assistance to subordinates and they would only do so when they believed their goals are cooperatively linked with subordinates.

After that, Jiao submitted his letter of resignation and his leave was approved by the General Director of the LCI. In Jiao's words, "as I was treated as an unnecessary person in the LCI, then I felt that I must resign and set up my own company to prove my ability to the LCI" (Interview, Jiao, 11/07/2011). He recalled:

When I decided to leave the LCI, some of my colleagues were very surprised, as I was the Deputy General Director of the LCI, a dream position to some staff. I told some colleague that, "I believe the performance of my own company will exceed the LCI in several years' time". However, I could tell from their suspicious expression that they did not believe that I could establish and manage an outstanding company, or some of them did not believe that I could even set up my own company (Interview, Jiao, 11/07/2011).

On 28 February 1993, Jiao left the LCI. He characterised his feeling about leaving as one of being "really hard-pressed" (Interview, Jiao, 11/07/2011). His manner of departure supports this and made others feel he was making a serious mistake. Jiao rented a tricycle used by coal-heavers to carry all his belongings away from his office. In China, especially in the 1990s, bicycles and tricycles were often used for transportation. Already by this time, however, they were mostly used by the poor or manual workers. To some of Jiao's colleagues, his behaviour in renting a tricycle to carry all his office materials may have indicated that he was in a very poor situation at that time. Jiao remembered that some of his colleagues even said he would not survive after leaving the LCI, or that he may need to "sell roasted sweet potatoes" to make a living.⁸

When Jiao resigned, Tang left with him. This was probably because the General Director believed that Tang was Jiao's trusted colleague. They had worked closely

⁸ "Selling sweet potatoes" is a local term widely used in Local City to indicate that a person is in a very poor financial condition. As roasted sweet potatoes are very cheap in China, people who sell them always use mobile carriers to sell along the street. So saying a person needs to sell roasted sweet potatoes indicates that there is little hope for the person's future economic prospects.

together in XBI for two years. It was likely that they were considered to be enemies of the General Director of the LCI. So when Jiao left the LCI, Tang was less likely to be trusted by the General Director. Tang then left with Jiao with the plan of establishing their own company.

Leaving the LCI may have been a difficult decision for Jiao. Being Deputy General Director, not only could Jiao receive a stable income, but could also obtain high social and political status. However, leaving the LCI meant that he had to give up almost all he had worked for and start from the beginning. Establishing his own business was not an easy task. At that time, the private economy was in its early period as China's economic liberalisation only started in 1978, only 15 years before. Under these market circumstances, could Jiao successfully establish his own business? How would he obtain funds and business clients? Could the company survive? All these barriers remained questions for Jiao and Tang. On the other hand, they had the experience of reviving XBI and they felt they had no choice but to take the risk of becoming independent.

5.4 Establishing Wisdom Architectural Design Company

Very similarly to Yang's initial selection of electronic products in the case described in Chapter 4, Jiao chose to establish a company in the architectural design industry, which both he and Tang were familiar with. They established the Wisdom Architectural Design Company in 1993 with no capital, no premises, and just the two of them. At this stage, it was only the idea of a company, not the reality. However, Jiao and Tang faced a very serious financial barrier. Although both were qualified and experienced architectural designers, they did not have sufficient funds to establish a company. In Jiao's words, he only had less than RMB 10,000 (US\$1,517) in savings when he left the LCI. This amount of funds was obviously not enough to establish a new company. This would not even be enough for renting office premises and purchasing necessary office supplies. Furthermore, as a regulatory requirement, without a legitimate company, they were not qualified to conduct architectural design for clients, even though they had extensive architectural design experience (Interview, Jiao, 11/07/2011). The other barrier faced by Jiao and Tang was that they did not have any clients. Circumstances were very different from those they experienced when they worked for the LCI, where

there were existing clients seeking architectural designs. When they resigned from the LCI, Jiao recalled "... nobody knew who we were and whether we would be competent in architectural design..." (Interview, Jiao, 11/07/2011).

When they were facing this barrier of lack of funds and clients, an opportunity emerged. The General Director of Company A, a large property-development enterprise in Xiamen, invited Jiao and Tang to design their new property-development project. Jiao and Tang had conducted an architectural design project for Company A when they worked in XBI. In Jiao's words, their design concepts and skills had been appreciated by the General Director of Company A (Interview, Jiao, 11/07/2011). When Company A sought Jiao and Tang as designers from the LCI, they were told that Jiao and Tang had already resigned. Because Company A's General Director had personally assured Jiao and Tang's reliability, he went looking for them. He managed to contact Jiao and asked for an independent architectural design. However, another barrier immediately arose. As a newly established enterprise, Wisdom Architectural Design did not have the qualifications required to conduct design. Under the existing regulations, they could not produce a design report. In order to overcome this barrier, Jiao and Tang suggested to Company A that they would still produce a full set of designs for Company A. However, as they did not have business regulation qualifications to produce the final design report, Company A could take Jiao and Tang's design to another qualified design company and use their qualified company name on the final design report (Interview, Jiao, 11/07/2011; Interview, Tang, 05/07/2011). This might have been a risk for Company A, as Jiao and Tang were not legally qualified to produce the design, which meant that Company A had no guarantee that their design would be up to standard. However, Company A agreed with Jiao and Tang. This indicates the high regard in which Company A held Jiao and Tang's reputation.

This transaction with Company A was largely based on the trust established between Jiao and Tang with Company A. The relationship between Wisdom and Company A became long-term and continuous. During the repeated collaborations, Company A was convinced by the quality and speed of Jiao and Tang's work. This points to Wisdom's achievement of one of the key requirements for successful entrepreneurship – reputation. The network of contacts Jiao and Tang carried from their time at LCI provided the opportunity with Company A, because of the Director's trust in Jiao and Tang.

This agreement between Wisdom Architectural Design and Company A proved to be a success. Jiao and Tang produced a satisfactory design for Company A for which they were then paid RMB 400,000 (US\$62,800). This was a huge amount of money for ordinary Chinese people in the 1990s. It overcame the immediate financial barrier to establishing a company. With this RMB 400,000 (US\$62,800), Jiao and Tang rented their own offices and purchased a car for business use. In March 1993, the Wisdom Architectural Design Company was finally established. Jiao recalled:

It was a great surprise to those fellows in the LCI when we managed to establish Wisdom Architectural Design. They were wondering how we managed to raise the funds, as they knew that we did not have sufficient savings to establish a company. The fellows in the LCI may assume corruption, but in fact, it was not (Interview, Jiao, 28/02/2012).

This success may demonstrate that trust Company A had in Wisdom Architectural Design had positive effects on the firm's performance. Rather than trusting Wisdom Architectural Design, Company A trusted Jiao and Tang personally. This was because he had found them reliable in the past. This transaction successfully eliminated the initial financial barrier for Jiao and Tang, which they could use for later development.

Shortly after Company A commissioned Jiao and Tang for the architectural design, another company from Xiamen, Company B, which was a well-established property developer, contacted Jiao and expressed their intention to conduct property-development projects in Local City. Company B was one of Jiao and Tang's business clients when they worked in Xiamen Branch. As with Company A, Company B's intention to collaborate with Jiao and Tang was also based on trust in Jiao and Tang. Jiao saw this coloration as an important opportunity. As Jiao put it, Company B being a property-development enterprise located in Xiamen, their development concepts were more advanced than people in Local City. They also sensed that the land price was cheap in Local City and that there would be huge room to conducting property-development projects (Interview, Jiao, 11/07/2011). The networks Jiao and Tang established when they were employees of LCI became invaluable in their efforts to become private businessmen. Academic research shows this is a common factor in the successful establishment of new organisations. Powell (1990, p. 326), in research into network forms of organisations, concludes that trust is one the three critical components of networks. Powell (1990, p. 326) notes that when repeated trading occurs, quality is

more important and “the reputation of a participant is the most visible signal of their reliability”. Because there is little separation of business status and personal social roles, reputation is of great importance in a network-like work setting (Powell, 1990, p. 326). This development made Jiao think about the future of his own business as well. He believed that moving to property development in Local City would be a correct track to take on, because the property-development market in Local City was relatively new compared to other cities, such as Xiamen.

5.5 The establishment and development of Wisdom Property

In August 1993, five months after the establishment of Wisdom Architecture Design, the Wisdom Property Development Company was established. Another property-development enterprise in Xiamen, Company B, and Company C based in Hong Kong each invested RMB 2 million (US\$313,969) in the establishment of Wisdom Property with 20 percent of the company shares given to Jiao and Tang. Jiao and Tang did not invest any money in Wisdom Property. Instead, they were responsible for the daily management of the company while Company B and Company C were not involved in daily management of Wisdom Property. In particular, the directors of Company B and Company C acted as the General Directors of Wisdom Property, while Jiao was appointed General Manager and Tang was the Deputy General Manager (Interview, Jiao, 11/07/2011; Interview, Tang, 05/07/2011).

This again demonstrates the high regard Company B and Company C held for Jiao and Tang. In fact, it was not possible for Company B and Company C to closely monitor the business operation of Wisdom Property. Geographically, the distance between Xiamen and Local City is around 2,000 kilometres. It was inconvenient to travel between those two cities at that time. The concepts about doing business were also different between the two places, with Xiamen being more market oriented than Local City. Therefore it can be seen that the collaboration among Company B, Company C, and Wisdom Property relied largely on the trust in Jiao and Tang.

This trust was not shared by people in the industry, the market or government generally. Right after the establishment of Wisdom Property, Jiao and Tang met serious barriers in terms of creditability and land access. In Jiao’s view, people doubted their ability to conduct property-development projects:

People knew that we were architectural designers, but then we shifted to conduct property-development projects. They suspected that we did not even know the procedures in conducting property-development projects. This was because we did not have any previous experience in the property-development industry. For this reason it was really difficult for us to obtain land resources at beginning (Interview, Jiao, 11/07/2011).

This was a new situation because Jiao and Tang had previously enjoyed a good reputation in their roles as architectural designers. When interviewed, Jiao explained that this lack of trust from other people created pressure on him personally (Interview, Jiao, 11/07/2011). Previously, Jiao had been the Deputy General Director of the LCI, so he had come to expect respect from his subordinates and other people who had contacted with him in this official capacity. After he gave up this job and the recognition it brought him, Jiao realised that other people would just treat him as an ordinary person with a very low social position (Interview, Jiao, 11/07/2011). Jiao found that the direct result of his position change was that he could no longer obtain assistance from his previous friends or subordinates. This may indicate that even if some of his previous friends could have assisted him in obtaining land for property-development projects, they would not bother to help him as he was now deemed just an ordinary person. Jiao used the following example to illustrate people's response to his position change:

After my resignation, I happened to meet one of my former subordinates. I was about to say hello to him. However, he just pretended that he did not know me and then walked away (Interview, Jiao, 11/07/2011).

When Jiao was trying to find ways to overcome these credibility and land-access barriers, another opportunity arose. The local Forestry Administration wanted to sell a piece of land with an area of 40 mu (26,640 sq m).⁹ Jiao noticed that several property developers were competing for the land and their bidding had already pushed up the land price to RMB 150,000/mu (US\$35/sq m). In order to obtain the land, Jiao decided to negotiate directly with the Director-General of the local Forestry Administration. Before he went to meet the Director-General, Jiao and Tang had already made a draft design for the potential residential buildings they could build on this land. They had also calculated the costs and profits they would obtain if they managed to obtain it. Then

⁹ 1 mu= 667 sq m.

Jiao went to meet the Director-General and asked him in a very straightforward way: “How much would you like for this piece of land?” (Interview, Jiao, 11/07/2011). In Jiao’s words, it was no surprise that the Director-General wanted to push the land price even higher than RMB 150,000/mu (US\$23,556/mu) to RMB 250,000/mu (US\$39,260). The Director-General raised two additional conditions. He required Jiao to pay 10 percent of the total purchasing price, RMB 1 million (US\$157,047), the next day. The other condition was that Jiao must pay off the land within one month. Jiao accepted the price and the conditions but he was clear that Wisdom Property did not have sufficient funds to purchase the land. Jiao recalled:

We only had RMB 2 million (US\$314,576) with the investments from Company B and Company C. But in order to secure the piece of land, I said to the Director-General that I would pay the 10 percent deposit the next day and we signed the contract immediately after that. I also promised to the Director-General that I would pay off the rest within one month. If I failed to do so, he could take the 10 percent deposit as compensation for a breach of contract (Interview, Jiao, 11/07/2011).

The Director-General readily agreed with Jiao, as there seemed to be no risk to the local Forestry Administration and it is likely that he expected Jiao to fail to meet the full price so the Forestry Administration would get the 10 percent of the price and still be able to sell the land. Jiao made the deposit as agreed and the contract was signed. However, his behaviour might still seem to be “crazy” to others (Interview, Jiao, 11/07/2011). Jiao recalled:

I have maintained a very good personal relationship with the Director-General of the local Municipal Commission of Housing and Urban Development. When he learned about my “crazy behaviour”, he persuaded me to stop conducting this project. And he offered to help me get my deposit back (Interview, Jiao, 11/07/2011).

Jiao refused this offer from the Director-General of the local Municipal Commission of Housing and Urban Development. Jiao’s confidence and courage in obtaining this land for development largely came from this professional background and extensive experience in the architectural design industry. In fact, he and Tang were sure that this project would generate substantial profits for them (Interview, Jiao, 11/07/2011; Interview, Tang, 05/07/2011). Jiao and Tang had faith in their professional experience and believed their ability as designers would play a vital role in overcoming the financial and land-access barrier for this project. As with their pattern of cooperation in

the LCI, Jiao was the architect and Tang was the structural engineer. Each was very clear and familiar with his own specific responsibility. In Jiao's view, it was because of the tacit understanding established during previous work between him and Tang, that the whole design was completed in only one week (Interview, Jiao, 11/07/2011). This was much quicker than normal turnover time, so that they would have more time to advertise the project on local media.

But Jiao still had to seek ways to pay off the purchasing price. If he could overcome the barrier of lack of funds, the land-access problem would be resolved simultaneously. He chose to try a method of financing which was quite new to this city at this time. Their understanding of this method again benefited from their professional background and previous work experience. Jiao and Tang advertised this project on the cover of the most widely read local newspaper. They made their property project very attractive to potential customers by including the low prices and part of the design on the newspaper. In Jiao's words, the design for this project was far more modern and advanced than existing property designs in Local City (Interview, Jiao, 11/07/2011). As Jiao and Tang expected, the design of these residential buildings attracted their first big client, the local Administration of Taxation. At that time, welfare-oriented public housing was still the norm in China. Some government departments and companies bought residential units and distributed them to their employees based on their employment duration. The Local City Administration of Taxation expressed interest in purchasing three buildings of residential units from Wisdom Property. Jiao then informed them that they needed to pay first in order to reserve these units. Jiao recalled that the local Administration of Taxation really liked the design of their development and the price was relatively reasonable based on the design, so they agreed to pay up front (Interview, Jiao, 11/07/2011). This was a huge breakthrough for the new company.

With the prepayment from the local Administration of Taxation, Jiao and Tang paid off the rest of the land price to the local Administration of Forestry on time. The outstanding design and reasonable price of this development project attracted some large companies as purchasers, including a large local cement company. In fact, the sales performance was much better than their expectations. During the first month after the advertisements, half the residential buildings were sold. This first property-development project was completed in May 1996 (Wisdom Property, 2009a). The

payments received from selling the units had not only resolved the initial creditability and land-access barriers but also generated substantial profits for Wisdom Property. This success enabled Jiao and Tang to buy other investors out and became the sole owners of the company (Interview, Tang, 05/07/2011; Interview, Jiao, 11/07/2011). With this ownership change, Jiao became the General Director, and Tang became the General Manager. When interviewed, Jiao used the term “a project of flour” to describe this first property development project. Just as you need to make flour before you cook, so you need to make money before you become a serious property developer. In Jiao’s word, “a project of flour” meant that personally, this first property-development project resolved the basic income problems for both Jiao and Tang. In terms of Wisdom Property, this first project brought enough funds to purchase land for future developments. It also built up the track record and creditability of the company (Interview, Jiao, 11/07/2011). Jiao and Tang’s willingness to take risks and their faith in the quality and market appeal of their designs were vindicated.

5.6 Property-development projects of Wisdom Property

Between 1997 and 2003, Wisdom Property successfully completed another four property-development projects in Local City. By contrast with the experience of Yang’s Property where land-access and financial barriers almost occurred in every single project, Jiao and Tang noted that Wisdom did not meet any land-access and financial barriers during this period (Interview, Jiao, 28/02/2012; Interview, Tang, 27/02/2012). This relative ease in obtaining land and funds may be related to two factors: their business strategy and the government policy in that period. Tang explained their business strategy for this period as gaining huge profits with little investment. He explained that there were few government requirements regulating property developers, so they could make use of this lack of government regulations to obtain land and sell the units off the plan, which required little of their own investment (Interview, Tang, 27/02/2012). He also noted that the company was in the right place at the right time. Government policy was in the process of abolishing the welfare housing program. So there was a sudden need for private property developers to fill the gap and not many enterprises willing to take the risks involved.

Wisdom Property's development between 1997 and 2003 received a boost with the abolition of in-kind allocation of public housing. Although Wisdom Property could not rely on this policy for later development, this policy created the opportunity for Wisdom's initial development. Before examining how the abolition of in-kind allocation of public housing provided a development chance for Wisdom Property, a brief discussion of China's housing reform will provide the context for Wisdom Property's development between 1997 and 2003. This discussion will also explain why Wisdom Property could not rely on this policy for later development. Extensive research has been conducted on China's housing reform (Huang, 2004; Logan, Fang & Zhang 2009; Man et al., 2011; Wang & Murie, 1996, 2000; Yan, 2009). The focus here is not on providing a full history of China's housing reform, but on how the abolition of in-kind allocation of public housing created opportunities for Wisdom Property.

Yan (2009, p. i), provides an overview of welfare housing programs in urban China, and of China's housing reform. China's housing reform began in the late 1970s, as part of the China's overall economic reform. Yan (2009, p. i) argues that 1998 can be used as "the demarcating year", which divided China's housing reform into two phases: "the phase of pilot projects and the phase of all-out enforcement". Before 1998, in the phase of pilot projects, the progress of housing reform was very slow. In 1998, the government issued the *1998 State Council document on Further Deepening Housing Reform and Accelerating Housing Constructions* (State Council of China, 1998). This document abolished in-kind allocation of public housing and advocated selling existing public housing units, primarily managed by work units, to tenants at a subsidised price (State Council of China, 1998).

When interviewed, Tang noted that this policy created a transition period, which was the main source of Wisdom Property's development projects during the period 1998 to 2003. Tang recalled:

Although the central government completely abolished in-kind allocation of public housing in 1998, local government retained some flexibility in implementing this policy. This was especially the case in such smaller cities as Local City. For example, one of our first property-development projects was sold to employees in a local government department. Though this government department could not purchase our units and allocate them to their employees, they could provide policy benefits to their employees. In particular, the local government department negotiated house prices with us and provided waivers on

land transfer payments, so we signed contracts with each individual occupant. Ostensibly, individual employees purchased residential units from us, but in fact, the local government department just shifted from providing in-kind allocation of public housing to providing employment benefits to their employees that included housing which was at the cost of the government departments (Interview, Tang, 27/02/2012).

Tang's explanation about Chinese local government's flexibility in implementing housing policies has also been confirmed in academic research. For example, Huang's (2004) research into China's housing markets, government behaviour, and housing choice, in three Chinese cities, Beijing, Chongqing, and Jiangyin, found that local government in these three cities exhibited different behaviour in regard to housing reforms. In particular, from the beginning of housing reform, there was flexibility for local government to "modify reform schemes provided by the central government based on local conditions" (Huang, 2004, p. 49).

Although local government's flexibility in reforming the housing system provided development opportunities to Wisdom Property, it was less likely to be a sustainable development strategy. Tang recalled:

The percentage of this kind of "faked in-kind allocation of public housing" had been decreasing since 1998. For Wisdom Property, this phenomenon stopped in around 2003 (Interview, Tang, 27/02/2012).

In response to this change, in 2004, Wisdom Property expanded its approach and became involved in a large government cultural project in a nearby city, City B. Local government in City B was also changing its approach and trying some partnerships with private enterprise. However, in 2003, the government officials in City B had intended to construct a large project to commemorate a famous ancient philosopher born in City B. Wisdom Property and the local government in City B came to an agreement that Wisdom Property would invest in this project with Wisdom's total investment being RMB 200 million (US\$31 million). This investment would be mainly from Wisdom's retained profit. In return, the local government of City B would transfer land-use rights of areas totalling 1400 mu (932,400 sq m) to Wisdom Property (Interview, Tang, 27/02/2012). This land could be used to develop residential units because of its convenient location. It was a very good deal, as the land price was only RMB 142,857/mu (US\$22,825/mu) based on the earlier agreement between Wisdom and City B's government, while the market value of land price in 2011 had reached RMB 2

million/mu (US\$0.31million/mu). This meant that if Wisdom obtained the land, even if they decided not to embark on any property-development projects, they would be able to earn substantial profit through selling the land to other property developers. Both parties also agreed that the ownership of this project would belong to the local government in City B, but that local government and Wisdom Property would own 50 percent of the right to the trademark of the project (Interview, Tang, 27/02/2012).

Initially, the project seemed to have proceeded very smoothly. Tang recalled that Wisdom Property had put an investment of RMB 200 million (US\$31 million) into the project, and that this project seemed to be raising the company's profile and also receiving attention from provincial government. The Governor of the province came to inspect the progress of the project (Interview, Tang, 27/02/2012). The local government of City B also reported this project on its website as an important part of the city's economic development plan (Local Government of City B, 2004).

It seems that their relationship with the city Mayor initially benefited them in obtaining the land from City B. However, this smooth beginning did not guarantee a smooth development process for Wisdom Property. Instead, Wisdom Property met regulatory barriers which stopped them from continuing the project in City B. Tang recalled:

The Mayor and the local Secretary of the Municipal Party Committee seemed to have disputes with each other. Then, both were transferred to another city, and the Mayor and the local Secretary of the Municipal Party Committee were replaced by people that I did not know. The new Mayor and local Secretary of the Municipal Party Committee cancelled our project then we had to leave City B (Interview, Tang, 27/02/2012).

The change of political leadership at the city level seemed to mean that Tang and Jiao had no alternative but to leave City B. Jiao mentioned that "there would be no benefit for the company in going against government" (Interview, Jiao, 28/02/2012). Tang was dismayed to lose the opportunity:

This 1400-mu land was in a very good location in City B. Using RMB 200 million to acquire 1400-mu land meant the average price of land was only RMB 140,000/mu. In 2007, the land price had increased to about RMB 1million/mu. This simply meant that if I had obtained the land-use rights, I could easily make a profit of more than RMB 1.2 billion (Interview, Tang, 27/02/2012).

The impact of the change of political leadership may demonstrate that the company's development was seriously influenced by the political environment. In this case, the change of city Mayor terminated Wisdom Property's collaboration with the government. This termination was not caused by incompetency of Wisdom Property, but by loss of patronage of senior officials in local government.

However, the situation did not completely stop Wisdom Property from making profit. In fact, the local government in City B gave them an opportunity to develop another project in City B, which generated a profit of RMB 3 million (US\$470,913) to Wisdom Property. From this experience Tang concluded that doing business in China sometimes "heavily relied on your fortune; if you can grasp a good opportunity, you can become successful very fast" (Interview, Tang, 27/02/2012). This indicated that, in Tang's perspective, the failure of this project was largely due to the lack of patronage after the change of Mayor.

5.6.1 Property-development project: City Garden

In 2004, about four months after the commencement of the project in City B, for the first time Wisdom Property went to public auction for a piece of land. This was the only land obtained by Wisdom in Local City through public auction up until the time this research was conducted. This land was part of an area which was subject to a large development project called City Garden. It was in a very good location, close to one primary school, two major high schools, and the only university in Local City. It was also next to a large supermarket and a hospital, providing convenient living facilities for potential residents (Wisdom Property, 2009a). Although the location of this City Garden project was outstanding, the development process was not very smooth. In this case, Wisdom Property had serious obstacles with land access and finance. It also ran into a difficult problem with its business partner during this project.

One issue in relation to barriers to business development demonstrated in this case is that the public auction process may itself cause a barrier to land access. This piece of land required a public auction by the municipal government of Local City because, as discussed in Chapter 2, in 2004, the Chinese Central Government made it compulsory to obtain land-use rights through a public auction process (Zheng & Kahn, 2008, p. 746). This meant that, if Wisdom Property wanted to obtain this piece of land, it must win the

bid at the public auction. The competition for this land was very strong, as two large state-owned property-development companies were involved as well. In competition with these two state-owned property-development enterprises, Wisdom Property was disadvantaged in its level of finance and its scale of business. However, in Jiao's words, Wisdom Property was "... determined to get this piece of land ..." (Interview, Jiao, 28/02/2012).

The three main management staff of Wisdom Property, Jiao, Tang, and the Deputy General Manager, Wei, attended the auction. The two state-owned property-development companies only sent one representative each to the auction, rather than senior executives. This meant that these two representatives did not really have the right to make the decision. Jiao recalled:

There was no doubt that all of us wanted to get the piece of land so that the selling price was pushed very high. As all of our three main decision-makers attended the auction, we could discuss the price immediately, while the other two representatives needed to make phone calls to their bosses, which was time-consuming and ineffective. On the other hand, these bosses did not know what was exactly happening in the auction, which could have affected their decision-making as well. Just because we were more effective, we won the auction and got the piece of land (Interview, Jiao, 28/02/2012).

Their success in winning the bid was due to Wisdom Property being more flexible and prompt in making decisions compared to those large SOEs. This situation may also reveal that the communication among the main management staff in Wisdom Property was effective and efficient. The capacities for flexible decision-making and good internal communication are hallmarks of entrepreneurial success (Entrialgo, Fernández & Vázquez, 2000; Barringer & Bluedorn, 1999).

After winning the auction, Wisdom Property faced the financial barrier of paying local government for the piece of land. In response to this barrier, Jiao and Tang for the first time decided to obtain bank loans. Since the establishment of Wisdom Property, they had mainly relied on their own funds generated from previous development projects to support their new projects. Jiao claimed that "bank loans could not be the main source of finance, but they could only be supportive" (Interview, Jiao, 11/07/2011). This points to the barriers to private enterprise created by lack of development of financial institutions in China. Jiao provided some interesting insights into how developers saw

the relationship with banks when he suggested banks actually used property developers' own money as funds to lend to property developers. Jiao used the following example to support his argument:

Banks never gave the full amount of funds to developers at once. This meant, say for example, I borrowed an amount of RMB 90 million from a bank. The bank would not pay me this RMB 90 million in one transaction. Instead, they might split this total amount into three instalments, each of which was RMB 30 million. As a compulsory requirement, the bank usually required developers to deposit payments received from consumers in this bank. Therefore, after we received the first instalment, the next instalment might even come from the deposits we made in the bank (Interview, Jiao, 11/07/2011).

Jiao stated that another obvious disadvantage of bank loans was the high interest payment. Jiao said banks want to earn profit through interest payments; however, paying interest to banks might affect the property developer's profit margin. Therefore, Wisdom Property usually used bank loans as a method to support its cash flow, but bank loans seldom became the main source of funds for a particular development (Interview, Jiao, 11/07/2011).

The fact that Wisdom Property rarely used bank loans did not mean that Wisdom Property had difficulty applying for bank loans. In fact, Wisdom Property was in a different position in obtaining bank loans compared to other private property-development enterprises such as Yang's Property. Jiao claimed that they did not meet any barriers in obtaining bank loans. In his view, this was mainly because of Wisdom Property's good creditability in the property-development industry (Interview, Jiao, 11/07/2011). For example, Wisdom Property was the only property-development enterprise in Local City accredited by the Industrial and Commercial Bank of China and Qishang Bank. In China, banks assess the companies' credibility; if a company received a high accreditation of credibility from a bank, it meant a high possibility of receiving a loan from the bank. Given China's undeveloped financial system and financial market, very few private enterprises are able to be accredited by banks.

When developing City Garden, Wisdom Property did not have enough cash to make full payment, although they had a large amount of account receivables, which would be enough to pay off the land (Interview, Jiao, 28/02/2012). Therefore, for the first time, Wisdom Property sought a bank loan for this project. Jiao felt the simplest way to

obtain a bank loan might be by a mortgage using the legal land certificate of this piece of land as security. An obvious benefit of this method was that it would not occupy extra cash for the application nor would it require other securities.

However, if it was to do this, Wisdom Property had to obtain the land certificate from the local Bureau of Land and Resources (Interview, Tang, 27/02/2012). This was a problem because, without the land certificate, there would be no evidence of ownership transfer of the land and it would also stop Wisdom Property from applying for a bank loan. In order to resolve this land certificate problem, Tang went to Guang Yang for assistance. Guang Yang was the former General Manager of TIT, discussed in detail in Yang's case. Although they were not involved in any previous transactions, Guang Yang had maintained a good personal relationship with Jiao and Tang. Guang Yang had also maintained a good personal relationship with the Director-General of the local Bureau of Land and Resources, through having dinners and family parties together. Previously, they were also doing favours for each other, such as Guang Yang helping the Director-General's son into a highly reputable high school. Guang Yang was willing to help Tang, as he thought "Tang and Jiao were honest people who it was worthwhile to help" (Interview, Guang Yang, 10/02/2012). Guang Yang then went to the Director-General of the local Bureau of Land and Resources. Guang Yang recalled:

Although I had very good personal relationship with the Director-General, she asked me not to be involved in this issue. In order to help Jiao and Tang obtain the legal land certificate, I said to the Director-General that "I had some shares in this project", though in fact I did not. Then, the Director-General said to me, "You should have told me earlier" (Interview, Guang Yang, 10/02/2012).

Because of Guang Yang's statement that he had shares in this project, the Director-General had the land certificate issued quickly. It seemed that the Director-General understood that Guang Yang's personal interests would be harmed if the land certificate was not issued. The Director-General may have acted to show that she separated Guang Yang's personal interest in Wisdom's project from the company's interest in the project: if the company was involved in this property-development project, the lack of land certificate would only affect TIT's profits. People may not have cared about the company's loss. However, as Guang Yang had said, he himself was a shareholder of Wisdom, which meant that the lack of land certificate would have an impact on him personally. Being a friend of Guang Yang's, the Director-General would be expected,

according to Chinese social convention, to assist Guang Yang for personal reasons. In this case, the Director-General was doing a favour for Guang Yang rather than assisting Jiao and Tang as the company.

As mentioned earlier, resolving the land-access barrier may simultaneously provide a solution to the financial barrier for developers. This was also the case here, because once Jiao and Tang obtained the land certificate with Guang Yang's assistance, they could then use the land certificate as security to obtain a mortgage totalling RMB 47 million (US\$7.3 million).

This demonstrates that the personal relationship with government officials may be helpful in eliminating financial barriers. In this case, Jiao and Tang did not have a direct personal relationship with the Director-General. Guang Yang acted as an intermediary and used his personal relationship with the Director-General to obtain the land certificate to Wisdom Property. The basis of the personal relationship between Guang Yang and the Director-General was seen by Guang Yang as likely to be a favour exchange. No money would change hands but the Director-General might expect Guang Yang to do more favours for him in the future.

Despite gaining a legal land certificate and bank loan, the development process still did not turn out to be smooth. Wisdom Property still could not access the land to begin the project, because the land-use rights to a small river on this land were not acquired as part of the title (Interview, Jiao, 28/02/2012). In order to explain this problem, it is necessary to review the original land ownership. This land was owned by Village A. Jiao and Tang thought that everything on this piece of land was owned by Village A. They therefore contracted and negotiated compensation standards with Village A before they went to the auction. As mentioned earlier, Wisdom Property won the auction. However, at the time they wanted to start construction, they found some old ladies sitting next to this small river in order to stop the project. Jiao recalled that it seemed that there was no reason for these old ladies to leave:

I was told that these old ladies were employed by Village B, the owner of this small river. They got paid RMB 10 (US\$1.57) per day for just sitting next to this small river and they were offered free lunches as well (Interview, Jiao, 28/02/2012).

In order to obtain the legal land-use rights to the small river, Jiao and Tang had to negotiate with the Village Director of Village B. They thought that the negotiation should have been done by local government, as the government had the responsibility to clarify the ownership of the land before auction. However, Jiao held the view that “it was never good to go against the government” (Interview, Jiao, 28/02/2012). Instead of requesting that local government resolve this issue, Jiao and Tang negotiated with the Village Director of Village B and they finally reached the following agreement. Wisdom Property paid Village B a cash amount of RMB 1 million (US\$157,356) as compensation, and Wisdom Property used the construction team from Village B as a contractor for the plumbing project of City Garden, thus generating more income for Village B (Interview, Jiao, 28/02/2012).

The third barrier Wisdom Property met was the problem with its business partner. City Garden was Wisdom Property’s largest project since its establishment. Jiao and Tang initially aimed to construct City Garden as a high-end residential project in Local City (Interview, Tang, 27/02/2012). Wisdom Property cooperated with another property-development company to develop this project. This cooperation was based on an exchange condition between the two companies. Wisdom Property wanted to invest in one of its business partner’s development projects, as its business partner had obtained a piece of land but lacked funds to embark on the development. The business partner agreed to Wisdom Property’s entry into this other project, but in exchange, they required that Wisdom Property give them a 25 percent share of the City Garden development project.

Thus, initially, City Garden was a project with Wisdom owning 75 percent and its business partner 25 percent. However, during the development process, Jiao found that the business partner wanted to start construction and collect money from clients on his own, without discussing or notifying Wisdom Property (Interview, Jiao, 28/02/2012). Jiao saw this as an indication that the partner company lacked sincerity in the cooperation. Jiao recalled:

Our business partner even held meetings with his subordinates to discuss how to ditch us from the City Garden project. They made detailed meeting minutes about how to start construction and collect money themselves. Their meeting minutes even included how to hide their actions from us. All of their meeting minutes

were stored in one of their employee's computer. Accidentally, our IT staff found all the meeting minutes and reported to me (Interview, Jiao, 28/02/2012).

After discovering this conspiracy, Wisdom Property took several measures to end the cooperation with its business partner. First, it stopped including its business partner's name in the development project. Then, Jiao organised a meeting with them. Jiao recalled:

Initially, they said that it was unfair that we stopped including them in this project. However, I started talking about several topics which appeared in their meeting minutes by quoting their exact words and terms. At this point, they realised that we had knowledge of all their conspiracies (Interview, Jiao, 28/02/2012).

This situation may be related to the institutional environment in China, where there was a lack of formal institutions restricting the behaviour of partners. Although a contract had been signed, Wisdom Property's business partner did not feel this should restrict their behaviour. As with Gong's behaviour of stealing the company in Yang's case, the business partner was doing what they could to maximise their own profit regardless of any partnership agreement.

The land-access barrier in this case arose from a failure by the local government to clarify ownership. As a result, Wisdom Property realised the difficulty in obtaining land at public auction and they started to take a different approach in overcoming the land-access barrier – developing land converted from agricultural land. In this case, there was likely to be less reliance on local government administration.

Another lesson learned from this project was also related to the public auction as a vehicle for access to land. Although Wisdom Property managed to obtain land-use rights through public auction and to complete this project, this may not indicate that private property developers were now being treated in the same way as large SOEs. On the contrary, Tang claimed that Wisdom Property and other private developers were disadvantaged in obtaining land-use rights through public auction (Interview, Tang, 05/07/2011). Tang mentioned that after 2003, property developers were required to go through a public auction and bidding process to obtain land-use rights. Among the land portions for sale, there were good pieces of land located in the central city area, which would potentially generate huge profits to property developers. However, private property developers could rarely obtain these good pieces of land because the

government preferred not to give private property developers access to this development land (Interview, Tang, 05/07/2011). The difficulty of obtaining land through public auction had the potential to create a land-access barrier for Wisdom Property's future developments. In the following section, Tang's example illustrates how obtaining land through public auction created a barrier for private developers. Wisdom Property's strategy in overcoming this land-access barrier is addressed, showed its increased capacity for flexible business strategies.

When interviewed, Tang used the Elite property-development project, a mixed-use commercial and residential project located right in the heart of Local City, as an example to illustrate how private property developers were disadvantaged in the public auction and bidding process. This example may also provide an explanation of Wisdom Property's subsequent focus on obtaining land that was previously used for agriculture for their development purposes.

The area where the Elite project was constructed included three pieces of land with a total area of 108,000 square metres which a group named People Group, obtained at a public auction at a total price of around RMB 390 million (US\$61 million) (Local City Municipal Bureau of Land and Resources, 2011). RMB 390 million (US\$61 million) was a huge amount of money to most Chinese private property developers. Private developers could rarely raise huge funds from their own profits or from the banks. People Land was a flagship company under the management of People Group, a key SOE supervised by the State-owned Assets Supervision and Administration Commission since 2003 (People Group, 2012a). The total investment of Elite project was around RMB 5 billion (US\$78 million) and the total construction area was around 1 million square metres (People Group, 2012b). This was much larger than any private developers in Local City.

When interviewed, Jiao mentioned that the public auction was only a formality manipulated by the government to create the public fiction that they treated enterprises fairly, regardless of the size and nature of enterprises. In fact, the whole deal had already been made through collusion between People Land and the provincial and local governments. Jiao recalled that people in Local City knew that:

The provincial and local governments just wanted to have People Land as the developer for these pieces of land. In the public auction process, People Land was a monopolist and there was no competition at all. Government had so much power in interfering in the property-development market. It was not always the case that companies offering higher prices could obtain land during a public auction. Instead, these large state-owned property developers which had good connections with government always won the best land with good location and high potential return (Interview, Tang, 05/07/2011).

It seemed to be impossible for private property developers to gain through this auction. In the *Notice of Transfer of Land Use Rights* published by the Local City Municipal Bureau of Land and Resources, it was required that only companies which were Top 500 companies or subsidiaries of them were eligible to bid at public auction (Local City Municipal Bureau of Land and Resources, 2011). This requirement clearly eliminated private property developers from competing for the land-use rights for these pieces of land. In the Elite case, it is likely that the People Group was the only bidder at the public auction, because the initial bidding price was exactly the same as the final sale price (Local City Municipal Bureau of Land and Resources, 2011). In Tang's view, not only did the provincial and local governments eliminate competitors for People Group, but they also offered prices lower than the market price for the benefit of People Group (Interview, Tang, 05/07/2011).

Despite economic reform, the provincial and local governments still seemed to be partial to these large state-owned property-development enterprises. Local media reported that "provincial and local governments attached great importance to Elite project", and this project was reported as "a very important project of government Major Investment Projects in Local City in 2011" (Sina Net, 2012; People Group, 2012b). Another indicator of government preference for such large state-owned enterprises as People Group was the ministerial attendance at the foundation-stone-laying ceremony for Elite project. On 30 March 2011, several provincial and local ministers attended the foundation-stone-laying ceremony, including the Governor of the Province, Deputy Governor of the Province, City Mayor; and the ceremony was hosted by the City Deputy Mayor (Soufang Net, 2011). Ministerial attendance at foundation-stone-laying ceremonies would rarely happen for private property-development projects in China. This was another indication of government preference towards large SOEs.

The payment conditions attached to some auctions also created barriers for private property developers. For example, *the Notice of Transfer Land Use Rights* published by the Local City Municipal Bureau of Land and Resources required bidders for the land where Elite Project was located to pay a deposit of RMB 10 million (US\$1.5 million) with an initial bidding price of RMB 53 million (US\$8.3 million). Not only was this a high percentage for a deposit, but the high price also stopped private property-development companies from entering the auction. The notes to *the Notice* also state that, “this piece of land requires a prepayment of RMB 40 million (US\$6.2 million) when the deposit is being paid” (Local City Municipal Bureau of Land and Resources, 2011). These two conditions taken simultaneously meant that the potential bidder needed to pay the whole price of RMB 50 million (US\$8.07 million) at once, which was impossible for most private property developers.

In order to overcome this land-access barrier or to avoid obtaining land through public auction, Wisdom Property began to put its business focus on developing land converted from agricultural land. From November 2005 until the time interviews were conducted, Wisdom Property had been mainly developing two pieces of land converted from arable land (Wisdom Property, 2009a). Developing projects on land converted from arable land was not unique to Local City. In fact, academic research conducted on land appropriation in China shows that this seemed to be a common strategy used by property developers to overcome the land-access barrier (Guo, 2001; Lin & Ho, 2005; Zou & Oskam, 2007). This research establishes a context to better explain Wisdom Property’s business focus on developing land converted from agricultural land to overcome the barrier of obtaining land through public auctions.

The background to this approach illustrates more about the difficulties created by the process of obtaining converted land. From the 1980s, agricultural land in China had been converted for non-agricultural use (Lin & Ho, 2005, p. 411). In particular, a number of researchers give evidence that a large portion of the cultivated land was converted for industrial and urban expansion use (Ash & Edmonds, 1998; Heilig, 1997; Ho & Lin, 2004; Lin & Ho, 2005; Smil, 1999). According to *Article 2 of the Land Administration Law of the People’s Republic of China*, the village collective has the right to use and supervise the use of land, but does not have the right to transfer land. On the other hand, “the State may, in the interest of the public, lawfully expropriate or

requisition land and give compensation accordingly” (Standing Committee of the National People's Congress, 2004). Guo (2001, p. 424) further identifies two steps in the assignment of land property rights: land expropriation by the government from villages and land transaction between the government and potential land users. Several researches have observed that in China, land sales contribute part of the local revenue, therefore local governments have a motive for engaging in land development either legally or illegally (Guo, 2001; Lin & Ho, 2005). Studies also found that some land was acquired from rural collectives at low prices for high-value urban development. For example, Guo (2001), in a case study of land expropriation and rural conflicts in a township in northeast Yunnan, found that farmers were poorly compensated and they rallied for protests, but the study also reveals that a large proportion of the profits from land sale was retained by the township and country government. In other research into land development in Guangdong Province, Wong and Zhao (1999) found a similar case where rural land was expropriated by local bureaucrats at a low price and then used for high-value urban development. These studies show how rural land was obtained for development in parts of China. How Wisdom Property acquired land from rural collectives for property development in Local City and how it used this as a method to overcome the barrier of acquiring land directly through public auction is the focus of the next few pages.

5.6.2 Property-development project: Gold Garden

In Jiao's view, obtaining converted land was different and more time-consuming than bidding for a piece of land at a public auction. However, it has the benefits of avoiding direct competition with large SOEs (Interview, Jiao, 11/07/2011). As mentioned earlier, after 2005, Wisdom Property focused on developing two areas of converted land, one of which was the development located at Gold Garden. The land where Gold Garden was built was next to the central district of Local City. Before the construction of Gold Garden, the land was collectively owned by villagers in Gold Village. Wisdom Property realised the benefits of the good location of Gold Village and started to plan to obtain land from Gold Village. Jiao recalled that it took about five years to obtain the land-use rights before official construction started in November 2005. This case is particularly illustrative of the method of obtaining converted land as a way of overcoming land-

access barriers, and it was time-consuming compared to obtaining land through public auctions.

In around 2000, Wisdom Property started to prepare for the official acquisition of this piece of land (Interview, Jiao, 11/07/2011). The whole process started with negotiation with the Village Mayor in Gold Village. This was followed by compensating villagers, the public auction, and finally, official construction. Jiao recalled:

We first went to the Village Mayor of Gold Village to ask about his intention regarding selling the land. Although he was willing to sell the land, we had to negotiate with the villagers to agree with them on compensation standards. In the Gold Garden project, we firstly built 43 buildings for the villagers as their new homes, so that they could vacate the land where their old houses were located for us to conduct our development project (Interview, Jiao, 11/07/2011).

In response to the issue of compensation standards, Wisdom Property had its own methods to prevent potential conflicts. The existing literature finds that land compensation conflicts are made worse and last longer because of the weakness of the compensation strategies used by developers. In contrast to this, Tang and Jiao claimed that Wisdom Property had not met such barriers as villager protests. This is in contrast with the experience revealed in the first case study in this research, Yang's Property. In Yang's case, villagers from Childer Village stopped Yang from implementing the Landscape property-development project. This was partially due to disagreement on compensations standards. In addition to the 43 residential buildings constructed for the villagers, Wisdom Property also provided means of production to villagers in Gold Village in the following two ways. Firstly, Wisdom Property designed commercial units in the Gold Garden project, but instead of selling or renting to the public, Wisdom Property reserved all these units for villagers in Gold Village at a very low rent, RMB 600/month (US\$94/month) (Interview, Tang, 27/02/2012). This meant that villagers had opportunities to open stores and to earn their living as grocers. Secondly, Wisdom Property built a building suitable for retail premises for Gold Village. Gold Village then invited a famous department store into this building. In this department store project, villagers collectively owned 70 percent of the profit and the village committee owned the remaining 30 percent (*People's Daily Online*, 2012).

Jiao saw direct business benefits in this arrangement. He explained that with the Village Mayor and villagers agreeing with their compensation standards, and with construction

of the 43 buildings finished, it would be very difficult for other property developers to undermine this deal (Interview, Jiao, 11/07/2011). At this stage it was generally understood that if other competitors wanted to enter into this deal, they would need to compensate Wisdom Property for all the costs incurred, including the costs of constructing the 43 residential buildings.

In order to keep sufficient funds for conducting property-development projects, Wisdom Property also had its own method. When interviewed, Jiao explained that when Wisdom Property obtained a piece of land, they always split the development project into several stages, which meant that they never started a huge project all at once (Interview, Jiao, 11/07/2011). Tang and Wei also claimed this strategy in interviews (Interview, Tang, 27/02/2012; Interview, Wei, 08/07/2011). This method was markedly different from Yang's case presented in Chapter 4, where Yang started a project without dividing it into stages.

In the case of Gold Garden, Wisdom Property split the project into five stages, with the construction and sales starting in November 2005 and lasting until the time this research was conducted in 2012 (Wisdom Property, 2009a). Wisdom Property set out to sell buildings in the best locations first (Interview, Jiao, 11/07/2011). Units in these buildings usually had the best views and the best orientations, so they would appear very attractive to consumers. Although these units were in the best buildings, the selling price was not high. Jiao said that their initial selling price was very close to or even lower than other properties built in the same area (Interview, Jiao, 11/07/2011). Because their units were the best in their development project and the price was low, they were very easily sold in a short time, thus quickly creating a cash flow for the project. This was then used to develop the next stage of the project (Interview, Jiao, 11/07/2011). When all the units in these best buildings were sold, the units in the second-best buildings would become the best available in the project. The selling price, however, could now be higher than those of the first stage. Jiao believed that this development and selling strategy was simultaneously pleasing for the existing consumers, and helpful for future sales:

Consumers who bought units in the best buildings should be very happy, as they got the best units in the best location with the best price. So they did not need to worry that there would be better units in the development project. Also, because

they bought the best units, they were more willing to promote the development project to their family members or friends, which created more potential sales opportunities (Interview, Jiao, 11/07/2011).

In Jiao's view, Wisdom Property's incremental development and sales strategy was better than developing the whole project at once (Interview, Jiao, 11/07/2011). He was aware of other development and sales strategies used by property developers, for example, developing the whole piece of land at once instead of splitting it into various stages, or selling the units in the worst location first, then continuing with selling units in better locations. Jiao claimed that these development strategies had their shortcomings compared to one used by Wisdom Property (Interview, Jiao, 11/07/2011). In particular, he pointed out that developing a large project at once would take up a huge amount of capital and may cause financial pressure for the development company. On the other hand, he saw selling units in the worst location as creating a subsequent sales difficulty:

If the developer started to sell properties in the worst location with a high selling price, it was still possible that some of the units could be sold. However, if the developer met a sales difficulty due to a change in the market or government policy, they may then have needed to reduce the selling price. Then, consumers who had already purchased units at a higher price would think the new price was unfair to them. They may then have sought compensation or asked for a refund. This may also have led to a bad company image to the public (Interview, Jiao, 11/07/2011).

Jiao saw another benefit of splitting the project into different stages with a potentially increased selling price. He gave the example of a property-development project split into four stages, which lasted for five years. According to his approach, selling prices were likely to increase, thus generating more profit for the company (Interview, Jiao, 11/07/2011). Using this management model, Wisdom Property performed very well.

Almost at the same time as starting the construction at Gold Garden in 2005, Wisdom Property started the preparation and negotiation on the second piece of converted land they developed. Similar strategies to those used in Gold Village were utilised in obtaining the land-use rights. Acquisition of land had continued throughout the development process: from 2005 to the time this research was conducted in 2012. Jiao particularly stated that as a result of following this approach, Wisdom Property did not meet serious land-access barriers after 2005 (Interview, Jiao, 11/07/2011). Jiao

mentioned that this enabled Wisdom Property to reserve sufficient land resources for future development, for at least the next five years (Interview, Jiao, 11/07/2011).

Tang's view of obtaining land for development seemed to be rather different from Jiao's. In Tang's view, they did make use of the government policy on Old Village Renovation to obtain converted agricultural land for their development, but they also faced a major barrier in the unfair treatment of such private property-development enterprises, which stopped them from attending public auctions (Interview, Tang, 05/07/2011). In contrast to Yang's Property, which had faced serious land-access barriers, Tang claimed that Wisdom Property still had pieces of land with a total area of 1,000mu (667,000 sq m) for their future developments (Interview, Tang, 27/02/2012).

The previous sections have discussed the specific barriers Wisdom Property met in their development projects over time. Jiao and Tang's response to these barriers provided illustration of key themes noticed in entrepreneurship research, such as the entrepreneurs' personal traits, being flexible, and networking with government officials. In respect of the land-access barrier, existing literature finds that small- to medium-sized property developers are in disadvantageous positions when competing with large SOEs, Wisdom Property focused on acquiring village-owned land. When acquiring village-owned land, existing literature suggests that compensation standards could be an issue leading to potential conflicts between property developers and villagers (Zou & Oskam, 2007). Wisdom Property overcame this by creating vested interests with villagers. In respect of financial barrier, the literature notes that Chinese private enterprises usually have difficulty in obtaining formal finance (Brandt & Li, 2003; Poncet et al., 2010; Tsai, 2002; Wu et al., 2008), Wisdom had no issue in obtaining bank loans, but developed its own strategy of splitting a project into multiple stages to keep up the cash flow, which addressed the financial stress. The focus of Section 5.7 and Section 5.8 is on the more general barriers that occurred in almost every development project undertaken by Wisdom Property. The major barriers of this sort in Wisdom's case have been regulatory and internal management barriers. These are addressed separately, with corresponding strategies used by Wisdom Property to overcome them.

5.7 Regulatory barriers

The research literature reviewed in Chapter 2 showed significant impacts on new property-development businesses in China and that entrepreneurs in this environment would need to develop the capacities to overcome these barriers if they were to succeed. Tang expressed the view that the high level of government regulation significantly affected the operation of Wisdom Property (Interview, Tang, 05/07/2011). He also mentioned that this regulation was based on unfair policies enforced by the government. Overall, his view was that policies lacked transparency and were unfairly implemented (Interview, Tang, 05/07/2011). In Tang's words, "the government only wanted to supervise companies which could generate profits, but did not care about those which were unprofitable" (Interview, Tang, 05/07/2011). Tang complained that the reason why government liked to manage profitable companies was so that they could generate tax income for local government, while unprofitable companies might not be attractive to local government. Tang believed that the tax system applied to the property development industry was full of disadvantages for private enterprise. Tang said:

The tax system was really unfair to us. It lacked transparency and was heavily influenced by local government. Some tax rules lacked explanation and detail, which totally depended on the local tax office's discretion. For example, there was a tax named "tax on buildings" with an amount of 1 percent of total revenue. There was no clear guide on this tax and the right to determine its application wholly belonged to the local tax office. If they said we should pay this tax, then we had to pay. If they did not require that, I could skip this tax on buildings (Interview, Tang, 05/07/2011).

Tang's complaint indicates the possibility of a moral hazard situation where developers and/or officials may be tempted into corrupt private arrangements to avoid this tax. In Tang's view, another major barrier Wisdom faced with the current tax system was that it was too complicated and the tax rate was too high (Interview, Tang, 05/07/2011). Existing research supports this view of China's current taxation system as problematic and ineffective (Anderson, 2006; Ding, 2005). In particular, Ding's (2005, p. 8) research into property tax development in China analysed the current tax system in China and identifies six major problems with the current tax system in relation to property developers. This has negative effects on enterprises' financial situation. Ding (2005, p. 8) argues that China's current tax structure, developed in 1951, is out of date. Several taxes are found to be redundant. For instance, land property taxes are levied on transactions rather than asset holding. Ding (2005, p. 8) also observes that the current

tax system is not well equipped to resolve complicated issues in China's emerging market development: one example given by him is that the current land and property taxes are impeding the mortgaging, re-renting, and subleasing transactions in the property-development market.

In order to overcome the barrier created by this complicated tax system and relatively high tax rate (Anderson, 2006; Ding, 2005), Wisdom Property mainly followed two strategies. The first was to maintain a good relationship with staff in the local Tax Office. The local Tax Office sent staff to audit company accounts every year, and in Tang's view, these staff could either be very strict with their accounts or they could be relatively flexible. This created both a moral hazard and a technical tax issue for Wisdom Property and the local officials. Tang explained:

For example, before such main events as the Chinese Spring Festival, we usually bought gift cards from large department stores and gave these gift cards to some important personnel, such as Director-Generals of some local bureaux. The funds used to purchase these gift cards were obviously part of the cost of sales to our company and there was no clear guidance on how to deal with this kind of expense in recording expenditure. So if this kind of expense was allowed to be put under the cost of sales, our profit would be lower, which meant we might pay less tax. But if the auditing staff from the local Tax Office did not deem this kind of expense as a cost of sales, we then needed to pay higher tax (Interview, Tang, 05/07/2011).

The second method Wisdom Property used in overcoming the barrier of the complicated tax system and relatively high tax rate was to manipulate profits to a point that had been carefully calculated to reduce tax liabilities (Interview, Tang, 05/07/2011). Tang claimed that they usually calculated the profit margin before they started each property-development project. In doing this, they seem to have been aware of both the market-based need for maximising profit and the regulation-based need for profit to be within a certain range acceptable to government. Understandably, Jiao and Tang were reluctant to provide much detail in the research interviews about how this profit manipulation was done. In order to find out how profit was manipulated by property developers, an accounting expert, Mr Bian, was consulted as part of the research. Bian was the owner and General Manager of a local accounting firm, Bian Accountants. He had extensive experience in dealing with financial issues in property-development companies and he also assisted companies to obtain listing on China's stock exchange market.

In Bian's view, profit manipulation by property developers was very common in China (Interview, Bian, 05/03/2012). Bian explained that one way to manipulate profit was to increase the costs incurred during the development process. In his words, the land costs were difficult to manipulate, as the payment to government for the land-use rights was fixed when the purchase was completed. However, other costs that occurred during the development process could be manipulated. Bian elaborated:

For example, at the beginning of the construction, property developers needed to excavate the area of the foundation for buildings. Property developers could argue that the volume was 5,000m³ even if the actual work only totalled 2,000m³. The difference in volume would directly affect the cost incurred. It would be almost impossible for the local Tax Office to investigate this kind of incurred cost. The other example would be the costs relating to decor in the residential gardens. Property developers can claim a tree costing RMB 200,000 even if the actual price was only RMB 200. The Tax Office would not investigate this kind of issue. Even if they asked about the price of the tree, property developers could easily claim that the tree was an old tree with a long history or a rare species (Interview, Bian, 05/03/2012).

The complicated tax system was only part of the regulatory barrier affecting Wisdom Property's development. Local government's flexibility in implementing policies also affected Wisdom Property's development in other ways. Wei, the Deputy General Manager of Wisdom Property, believed that regulatory barriers were the most influential barriers affecting Wisdom Property's development (Interview, Wei, 08/07/2011). He reported, for instance, that local government retained much flexibility in implementing regulations. He illustrated this flexibility, using the following example:

For instance, the local Bureau of Planning was in charge of such issues as evaluating building exterior designs. Whether building exterior designs could pass evaluation or not wholly depended on their personal judgement, as there was no specific requirement for building exterior design. If they said the design was fantastic, then it was fantastic; but if they said the design was terrible, then it was terrible (Interview, Wei, 08/07/2011).

To overcome this regulatory barrier, Wei claimed that they attempted to maintain a "lukewarm relationship" with local government (Interview, Wei, 08/07/2011). On one hand, methods such as giving gifts and treating them to dinners were employed. On the other hand, Wei claimed that they had to bear some burdens for local government. While the research literature shows that generally entrepreneurs are likely to resent regulation (Chilton & Weidenbaum, 1982; Morrison et al., 2003), the situation of

Wisdom Property shows that the Chinese property-development enterprises need a particular set of capacities to deal with regulatory barriers. This included keep flexible when dealing with government officials.

5.8 Internal management barriers

Being different from Yang's Property, which seemed to ignore internal management as a barrier, Wei, the Deputy General Manager with the main responsibility for supervising the daily management, considered internal management as a barrier (Interview, Wei, 08/07/2011). In response, they took proactive approaches to address them. The discussion of internal management barriers of Wisdom Property heavily relied on Wei's accounts. Wei may provide the best reference on how Wisdom Property overcame the internal management barriers, as his responsibility in the current company structure of the company was to overlook the daily management issues. In addition, he was very familiar with Wisdom Property's development and operation, as he was an employee who joined Wisdom Property shortly after its establishment.

The elimination of internal management barriers may be closely related to Wisdom Property's modern company structure. During their interviews, both Jiao and Tang mentioned that they were different from many other new companies in China, in that, they were using a more formal company management structure rather than family relationships (Interview, Jiao, 11/07/2011; Interview, Tang, 05/07/2011). Tang pointed out that unlike many new Chinese companies, Wisdom Property rarely had close relatives as key management personnel involved in the management team (Interview, Tang, 05/07/2011). The only close relative involved was Tang's father, who was a purchasing assistant and was employed because of his specific expertise rather than the family relationship. Tang explained:

My father had been in the construction industry for nearly all his career. He was very familiar with prices of different products from various suppliers. So he can ensure that we could get possibly cheapest products from the market, which was helpful in controlling our costs. Otherwise, if I employed other people to purchase supplies, it was reasonable to expect the prices would be at least 20 percent higher than the prices obtained by my father. Except for purchasing supplies for our projects, my father was not involved in any other management activities within Wisdom Property (Interview, Tang, 05/07/2011).

Not hiring relatives may have several advantages. To some extent, it may make the company management easier. First, when making company changes, especially HRM changes, management staff did not need to consider kinship. Second, not hiring relatives could eliminate the situation of bringing attitudes to work when there is a disagreement based on personal issues and histories.

In addition to the insistence on not employing family members, Wisdom Property seemed to have a more organised and precise work division among key management personnel. Jiao explained the responsibility of the main management personnel in the following way:

Being the General Director of Wisdom Property, I was mainly responsible for major issues and decisions, for example, making big company policy, purchasing fixed assets with a large amount of funds, promotion of core employees. Other than these key issues, I did not interfere with the daily management of the company. Tang's major responsibility included business negotiations, project management and daily company management. Wei as the Deputy General Manager was responsible for more detailed operations management, including coordinating the different departments and reporting important information to Tang and myself. I think we had achieved clear and precise division of the work (Interview, Jiao, 11/07/2011).

As Wei's main responsibility was to deal with detailed problems arising from daily company operation, he stands as a key informant in relation to observing the internal management barriers that occurred. Wei's decade and a half of work experience in Wisdom Property may also have contributed to his identification of company problems. Wei's background was very different from that of Jiao and Tang who were professional staff in construction-related industries. Wei's major in university was telecommunications. After his graduation in 1998, he obtained a junior position in the local Municipal Commission of Housing and Urban-Rural Development (Interview, Wei, 08/07/2011). However, Wei found this job very boring, so he decided to resign and seek a new growth opportunity for himself. A local newspaper interviewed him and reported Wei's move and development in the following way:

Wei initially worked as a junior officer in Wisdom Property. In 1998, Wisdom Property was operating at a high development pace but they only had limited number of employees. So Wei not only needed to work on existing property management but also the sales of newly established property projects ... In 2000, Wisdom Property established a separate sales department and Wei led the team successfully in selling units in seven residential buildings ... He was then

promoted to the Deputy Manager of the sales department in 2001. In Wei's view, "Wisdom Property attached great attention to the personal development of employees". The Director and General Manager then appointed Wei as the manager of a new project with investment of RMB 15 million (US\$230,000). Wei claimed that, "In fact, managing this project independently was a test for me. The Director and General Manager showed great trust in me ...". In 2007, Wei was promoted to Deputy General Manager and a member of the Board of Directors of Wisdom Property (*Morning News*, 05/07/2007).

Wei had therefore witnessed Wisdom Property's development since 1998. His initial work experience in Wisdom Property, where there was no separate sales department, provided him with the opportunity to gain knowledge in the areas of existing property management, sales, and HRM (Interview, Wei, 08/07/2011). This work experience was helpful for Wei in identifying management problems because he was familiar with such issues as company structure and division of work. When interviewed, Wei claimed that unclear work division among different departments was a major potential internal management barrier for Wisdom Property (Interview, Wei, 08/07/2011). Wei argued:

Wisdom Property attached high importance to cost control. However, unspecific work division among different departments may reduce work efficiency, which may lead to an increase in costs (Interview, Wei, 08/07/2011).

In order to overcome the barrier of unclear work division, Wei took three major steps. The first was to request a written report from every employee at the end of each year (Interview, Wei, 08/07/2011). In Wei's words, the main purpose of the written report was to give each employee a chance to raise operational problems they had observed. Wei tried to overcome issues of trust in reporting by assuring staff that he kept all the information in the written reports confidential. Then, he summarised the main problems in a list for his own reference and he moved on to his second step.

The second step in resolving the issue of unclear work division was to have discussions with employees face to face (Interview, Wei, 08/07/2011). Wei used the following example to illustrate how the face-to-face discussion worked in addressing the barrier:

For example, if it was identified from the written reports that there was unclear work division between Engineering Department and Sales Department. I would have a discussion with employees in each department and ask for more details about the current problem. I also asked for their own recommendations for resolving this problem. Then I summarised the problem details and employees' recommendations to work out a standardised procedure to specify the

responsibility of each department. Then I would issue a company document detailing the standardised procedures that employees should follow when similar issues happened. Up until now, I have drawn up such standardised procedures for applying for funds, paying suppliers and customer service. All of these were produced in the form of company documents and distributed within our company (Interview, Wei, 08/07/2011).

After identifying problems and discussing them with employees, the third step was to amend existing standards or to publish new standards (Interview, Wei, 08/07/2011). Amended standards were included in company documents, which were then produced in the form of company documents to inform employees. For example, a company document named “Solution to department connection problems”, prepared by Wei in 2010, detailed 32 problems raised by employees and their corresponding solutions (Wisdom Property, 2010). Wei claimed that he had used this company document as a summary of all problems identified and he then issued specific company documents to standardise work procedures for employees (Interview, Wei, 08/07/2011).

Company documents supported Wei’s view. Company Document No. 11 (Wisdom Property, 2009b) can be used as an example to illustrate how Wei’s standardised procedures for employees operated to overcome the barrier of unclear work division. Company Document No. 11 (Wisdom Property, 2009b) provided additional provisions to the initial customer service management standards. It detailed responsibilities of the Customer Service Department and work procedures to eliminate the unclear work division between the Customer Service Department and the Maintenance Department. For instance, Company Document No. 11 (Wisdom Property, 2009b) provides the following terms to specify the division of work:

3. The customer service department was responsible for issuing the Form for a customer maintenance request to the maintenance department on the day when it was received. The maintenance department then needed to fill in the estimated time required for maintenance (standardised turnover period detailed in the following table). If the maintenance time was uncertain, the maintenance department should report to the Deputy General Manager for approval (Wisdom Property, 2009b).

Table 5.2 Turnover period for customer requests

Maintenance item	Turnover period (days)
Reply to customers' general questions	1
Reply to customers' questions on project design	1
Leaking problem (ceiling, wall, bathroom, storage room, solar pad, etc.)	5
General maintenance (storage, car park, floor surface, windows, etc.)	5
Electronics (electronic cable, switches)	2
Water pipes	2
Other maintenance (maintenance of sanitary ware)	2
Existing property management (security, cleanness)	2
Other customer request (customer feedbacks on Wisdom Property)	2

Source: Wisdom Property Company Document No. 11, 2009.

This example illustrates Wisdom Property's attempt to standardise work procedures in order to overcome the barrier of unclear division of and increase efficiency of work. It can be seen from this example that Wisdom Property attempted to establish a more organised structure through specifying the division of work for each department. It also used company documents to guide employees' behaviour and standardise the work procedures.

Wisdom Property also tried external-sourcing management training methods to resolve internal management barriers (Interview, Wei, 08/07/2011; Interview, Tang, 05/07/2011). In 2008, Wisdom Property invited Allpku, a Chinese management consulting company, to design solutions for Wisdom Property. Allpku was "a pioneer and leader in China's local management consulting industry" which aimed to "provide effective solutions for the growth and reform of China's companies" (Allpku, 2008). But in Wei's words, this externally sourced training was not very successful (Interview, Wei, 08/07/2011). Wei explained:

Allpku's training focused simply on performance evaluation. However, performance evaluation is industry specific. For manufacturing companies, employees' performance can be easily quantified based on the amount of products being manufactured. However, ranking employees' performance did not make too much sense to our company, as employees' performances were difficult to quantify. Therefore, Allpku's performance-based payment system did not capture the personal interests of employees. We then had to stop implementing this payment system (Interview, Wei, 08/07/2011).

This externally sourced training may be a good attempt by Wisdom Property to be innovative in its internal system, although it did not end up with a satisfactory result. Not many Chinese private enterprises would be willing to spend money on this employee training. Even though this initiative failed, it increased the company's capacity by attempting to use externally sourced training to resolve the management issue.

Another area where Wisdom developed new capacities was client relationship maintenance. This was a potential barrier Wisdom Property faced during development, which was not familiar to organisations in a centrally planned economy. Wei pointed out that consumers who purchased units from Wisdom Property would make complaints and there were disputes with existing customers when providing property-management services. Wisdom Property spent much time on resolving problems and maintaining good relationships with their clients. In order to maintain a good relationship with existing clients, Wisdom Property established the Wisdom Club. Wei explained that existing residents could apply to be a member of Wisdom Club, which enabled them to receive discounted prices from Wisdom's partner stores. Wei explained:

Wisdom Club was not a profit-oriented program. Instead, we needed to pay various expenses incurred, such as payments to business partners and expenses incurred when organising activities. We also published the *Journal of the Wisdom Club* to keep residents updated about our company's development. The whole idea of doing this was to maintain good relationships with our clients and a good company image to the public (Interview, Wei, 08/07/2011).

Providing service may distinguish Wisdom Property from other property-development enterprises in Local City. It was part of a longer-term strategy to create a good company image to the general public, which would benefit Wisdom Property in its future projects when company image could be considered an important factor. In this way, Wisdom showed its capacity to develop better projects compared to other property-development enterprises.

5.9 Summary

This chapter has discussed the second case narrative for this research, the establishment and development of Wisdom Property. This discussion focused on the barriers Wisdom Property met and its strategies to overcome these barriers. The case narrative illustrated

some key themes for this thesis and they are summarised in Table 5.3. As with the first case narrative, this table attempts to categorise the actions taken by Wisdom Property according to the themes emerging from the case narrative in a simplified form to facilitate clearer analysis.

Table 5.3 Summary of thematic analysis for Wisdom Property

Theme	Sub theme	Quote
Personal development	Accumulating market knowledge	Previous work experience
	Personal traits	Similar personal characteristics Strong-minded and persistent Confidence and courage Confidence: sure that this project would generate substantial profits
Flexibility	Other	Ability to adapt to changes Being more flexible and prompt in making decisions and flexible decision-making and good internal communication
Innovation		New approach for XBI New financing method
Opportunistic		Another opportunity arose
Networking	Personal network with government officials	Relationship with the city Mayor Personal relationship with government officials
	Personal network with clients and friends	Build up business ties with several clients Good relationship with Guang Yang
Trust and reputation		Reliability Reputation Trust
		Trust Company A had in Wisdom Architectural Design had positive effects on the firm's performance High regard in which Company B and C held in Jiao and Tang Wisdom Property's good credibility
Product quality		Feasibility report within one week Their design concepts and skills were appreciated Finished design quicker than normal turnover time
Entrepreneurial/ managerial strategy		Business strategy Land converted from agricultural land Own method to keep sufficient funds for conducting property-development projects
Others		Different market environment Trusted colleague A product of politics of Chinese SOEs Government policy Local government's flexibility in reforming the housing system Change of political leadership Government of City B gave them an opportunity Saw direct business benefits in this arrangement

The case narrative illustrated that Jiao and Tang's previous work experience and their personal traits were significant for their response to barriers when they established their own company. While this may be generally true of all entrepreneurs, in this case it was their professional knowledge in the architectural design industry and work experience which gave them confidence to obtain land even though they were short of funds. Specifically it enabled them to complete their first design project within a shorter period of time than the client expected. Both their background and this better-than-expected performance began to build their reputation as reliable and trustworthy.

Professional trust and reputation were important factors in overcoming several of the barriers they faced. For example, the establishment of Wisdom Property was closely related to the business ties they built up when they worked for the LCI and the trust Company B and C held in them. This case narrative also provided illustration of the high product quality. In this case, Jiao and Tang's ability to complete a feasibility report within a short timeframe was related to their professional background and previous work experience.

Another theme worth noting was Wisdom Property's managerial strategies to address land-access and financial barriers. Here we can see the value of flexibility in their strategic approach, especially in dealing with government officials and villagers. Their ability to react "on the spot" during the land auction gained them an advantage with the officials compared to the more cumbersome decision-making of their competitors, the large state-owned developers. Wisdom Property also developed their own way of creating vested interests with the villagers to obtain converted land. By doing this, they overcame the resistance of current land users, which had caused Yang so much difficulty. A final example of Wisdom Property's flexible approach was the way they split projects into multiple stages to ensure continuous cash flow, which addressed financial difficulty.

In terms of internal management and client relationship, Wisdom Property was very different from Yang's Property in structure and management. Although both Yang's Property and Wisdom Property were private companies, Wisdom Property tended to have more features of an organised company. For example, Wisdom Property had more specific division of work among the General Director, General Manager, and Deputy

General Manager. Wei, as the Deputy General Manager, worked on resolving the internal management barrier limiting Wisdom Property's development.

In summary, the case of Wisdom Property revealed the importance of professional trust, which could work as an alternative to networks when addressing barriers. This case also showed that proper company management had positive impacts on sustainable growth of an enterprise. The next chapter, Chapter 6, will present the third case narrative for this research, East Property. The discussion of East Property will follow a similar format to Chapters 4 and 5.

Chapter 6 Property-development case 3: East Property

6.1 Introduction

The previous two chapters described and explained the barriers Yang's Property and Wisdom Property met in establishing and developing their businesses. These narratives were used to reveal how the enterprises and entrepreneurs in China overcame those barriers and provided concrete illustration of key themes identified in entrepreneurship research. Like the first two case enterprises, this third case enterprise is located in the same city with a pseudonym of Local City. This third case reinforces the themes of networking, trust and reputation, and political connections.

The first case study of Yang's Property was about a property-development enterprise established by Yang, an entrepreneur who had little knowledge about property development before he established the enterprise. The development of Yang's Property seemed to be significantly affected by the personal support provided by his brother, Guang Yang. This was especially the case for the early days of Yang's Property. Nepotism played a significant role in assisting Yang obtaining land and finance. In contrast to Yang's Property, Wisdom Property was set up by two professional architectural designers, Jiao and Tang. Their development path and strategies used to overcome barriers were not the same as those of Yang's Property. The most significant difference was that Wisdom Property was operated in a more structured manner and had many features of typical modern companies in market-oriented economies. This more professional approach gave Wisdom the capacity to develop more sustainably.

This chapter presents the third case narrative for this research. It also examines and explains how China's private property-development enterprises have sought ways to overcome barriers to their business success, using the case of East Property. East Property, followed a different path from both Yang's Property and Wisdom Property, having its origin not only in the actions of an individual entrepreneur but also in the transformation of a collectively owned property-development enterprise into a private enterprise.

The following section first addresses the company profile and the process of obtaining access to key informants. Next, Section 6.3 discusses the entrepreneur's, Mr Kong's

personal development with reference to the context and venue for the establishment of East Property. This context is relevant to this research as the circumstances under which East Property was established were very different from the previous two cases. This context is a key to understanding how East Property developed. Kong's early position might have impacts on his later choices in establishing East Property. The experience he accumulated also affected his selection of business strategies when facing barriers.

6.2 Company profile of East Property and key informants of the case

East Property was a privatised property-development enterprise which originated as a village-owned enterprise. Table 6.1 summarises the company profile of East Property. Its privatisation completed in 2005. Between 2005 and 2011, East Property conducted four projects, in both Local City and a nearby city. It had the smallest number of full-time employees of the three case enterprises, with only four. With limited staff members, it was difficult for East Property to have a complete and proper company management structure to address issues arising from business operations.

Table 6.1 Company profile of East Property

Year of establishment	Number of projects by 2011	Number of employees	Annual revenue of the past five years
Formally established in 2005 after the privatisation	4 projects were developed after privatisation	Only four full-time employees and around 10 part-time employees when conducting projects.	Unstable. The annual revenue depended on whether there was a project.

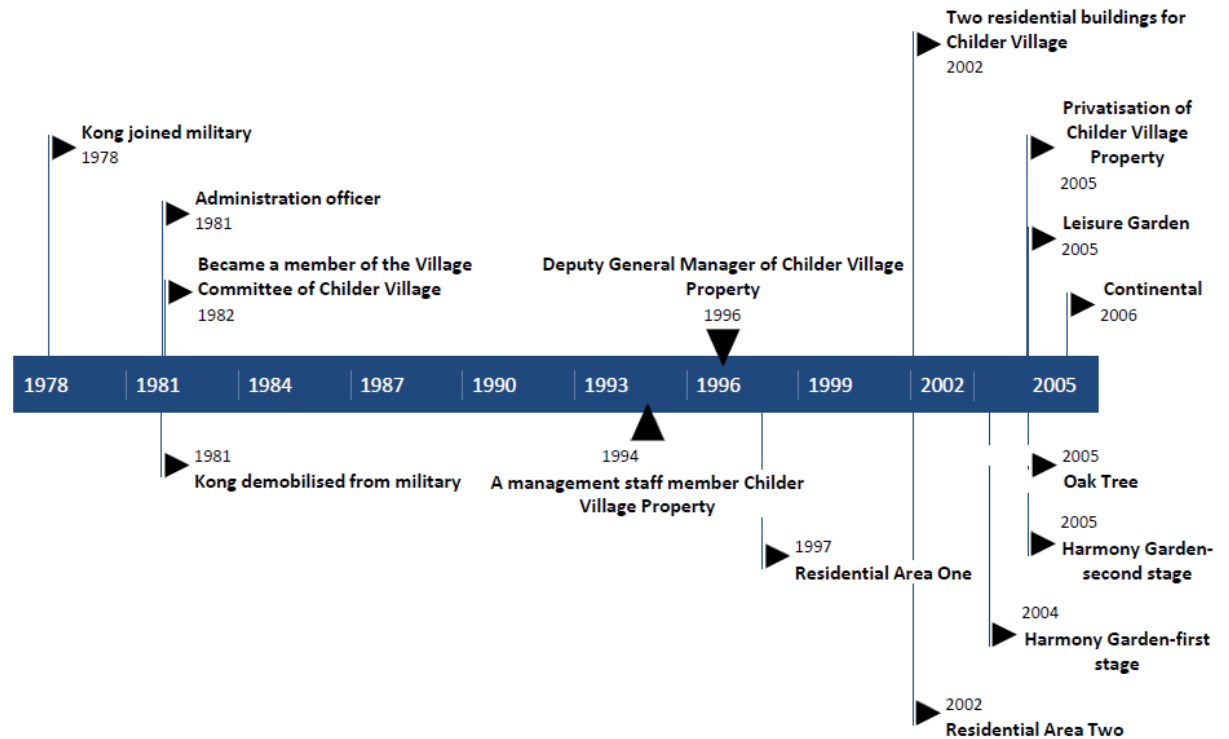
The data collection started with the entrepreneur, Kong. Although my personal contact introduced me to Kong and he agreed to be interviewed, he changed the interview time several times. As mentioned in Chapter 3, eventually, I had the interview with Kong in one early morning in a park next to his home where he usually does morning exercise. This was because he was too busy to arrange another time for the interview. This timing and venue had one advantage for conducting the interview for the purpose of this research. Fewer factors disrupted the interview process. No people or phone calls stopped the interview, which happened often during interviews in an entrepreneur's office. Therefore, Kong was easier to concentrate on the interview. He also seemed relaxed and open in a way that might not have been expected if he was in his normal business environment.

Because East Property did not have a company website or other similar sources of information, I used my personal contact to find more informants to ensure the reliability of information collected. For instance, I interviewed one of Kong's close friends and the lawyer who was responsible for Kong's lawsuits. In addition, I also included newspaper articles on problems with East Property's projects in the case narrative. The key informants for the case of East Property include:

- Wen, former General Manager of Childer Village Plastics Manufacturing Company. Wen was a very close friend to Kong. He had knowledge about Kong's personal development and East Property.
- Kong, owner of East Property. Kong was the company owner and responsible for the business operation.
- Han, former Mayor of Childer Village. Han was Kong's former superior and he assisted Kong in obtaining land for several property-development projects.
- Meng, lawyer. Meng was Kong's lawyer in lawsuits he was involved in, therefore he had extensive knowledge about East Property's projects.

As with Yang's Property and Wisdom Property, those key informants were the actors in the narrative. Their information is significant because they were closely associated with the enterprise and its activities. These key informants could provide unique insights into the process of the enterprise's survival and growth. Figure 6.1 highlights the key events in Kong's personal development and the property-development projects conducted by East Property.

Figure 6.1 Timeline of Kong's development and projects of East Property



6.3 Kong's personal development and previous work experience before establishing East Property

Kong's personal development and the establishment of East Property were closely related to the village he resided in, Childer Village. Childer Village is located in the southwest suburb of the central district of Local City (Local Government of Local City, n.d.). It is an inner-city village with total area of 1.2 square kilometres (km²). Childer Village has a very convenient location: the distance from Childer Village to Local City Railway Station and Coach Station is less than one kilometre (Local Government of Local City, n.d.). This convenient location was the foundation for Childer Village's decision in 1996 to attempt to conduct property-development projects in the village (Interview, Han, 12/07/2011; Interview, Wen, 21/02/2012; Interview, Kong, 14/07/2011). One key to this policy was that Childer Village had been experiencing difficulties with its current approach to economic activity which focused on an integrated agricultural, industrial, and commercial development (Local Government of Local City, n.d.). The target of this policy was to promote Childer Village's development in all three areas, however the reality was, in the late 1990s, several village-owned enterprises were not profitable or were even operating at a loss. In order

to mitigate the loss, the Village Mayor decided to privatise Childer Village Property, but the exchange condition was that the new owner had to bear some of the losses of other village-owned enterprises.

For a description of Kong's personal development, this research relies on Kong's, Kong's close friend, Wen's, and the former Village Mayor Han's accounts. Wen was very familiar with Kong and he was also a participant of the case. Wen explained his relationship with Kong:

Kong and I grew up together in Childer Village. As I was several years older than Kong, I was more like his elder brother. He always shared information with me. Sometimes, he consulted my opinion when he was going make big decisions or when he was in trouble (Interview, Wen, 21/02/2012).

Kong's early years were fairly typical of normal Chinese people at that time and were not closely linked to doing business. Table 6.2 summarises Kong's major personal development progress between 1978 and 2002.

Table 6.2 Kong's personal development from 1978 to 2002

Year	Location and company	Kong's key activity and/or main responsibility
1978	Joined military	
1981	Demobilised from military and went back to Local City job hunting	
1981	Administration officer specialising in land management in Station Sub-district Office of Local City	Land management, deal with different land transactions
1982-1993	Became a member of the Village Committee of Childer Village	The Committee was responsible for social and economic development of the village and managing collectively owned land. Kong's specific responsibility was to manage issues relating to property development.
1994	Childer Village Property, a village-owned property-development enterprise	Kong was a management staff member in Childer Village Property. However, no project was conducted until 1997.
1996-2002	Childer Village Property	Kong was Deputy General Manager of Childer Village Property.

Sources: Interview, Wen, 21/02/2011; Interviews, Han, 12/07/2011, 06/03/2012; Interview, Kong, 14/07/2011.

Kong was born in 1960 in Childer Village and he joined the army in 1978 for two years of service (Interview, Wen, 21/02/2012). In China, there is no mandatory military service, but people join the military for various reasons. For example, some people want to pursue future positions in defence but many families and individuals see the military experience as important in maturing individuals and developing capacities that are useful in their later life (Jackson, Thoemmes, Jonkmann, Lüdtké & Trautwein, 2012). Kong's case appears to fall into this latter category. With demobilisation in 1981, Kong went back to Local City job hunting. Kong took several administrative positions after his demobilisation. At that time, China had just begun its economic reform with major employers of SOEs and government agencies being reformed to meet the more market-oriented market circumstances created by national policy settings. Being a public servant was seen by many as better than being an employee in an SOE because of the more stable income and better social status. This may be closely linked to traditional

official-oriented ideology in China, which embeds public servants in China with higher social rank.

Kong's first position was as an administration officer specialising in land management in Station Sub-district Office of Local City. This position not only provided him with the advantages of being a public servant, but it also enabled Kong for the first time to learn about the property-development industry and its regulatory procedures. In it, Kong had many opportunities to deal with different land transactions because Station Sub-district Office in Local City was large, and prominent in land transactions. Station Sub-district Office of Local City was one of the four sub-district offices in the Central District of Local City. In 2005, the area under its jurisdiction was 4.34 km² with 44,000 residents (Local City Government Public Information Net, 2005). Kong's main responsibility when working as the administration officer was related to land management within the jurisdiction (Interview, Kong, 14/07/2011). Wen explained that part of Kong's role as the administration officer specialising in land management was to complete paperwork for land-use rights, so he was familiar with the system and he also had chances to establish contact with government officials in other departments relevant to property development, such as the Bureau of Land and Resources (Interview, Wen, 21/02/2012).

In addition to gaining knowledge about the property-development industry, this initial work experience seemed to also provide Kong with other job opportunities in his later positions in Childer Village, as Childer Village is one of villages under Station Sub-district Office's jurisdiction. In 1982, after working in Station Sub-district Office for about two years, Kong became a member the Village Committee of Childer Village (Interview, Kong, 14/07/2011; Interview, Wen, 21/02/2012). Not only did the Village Committee have responsibility for the social and economic development of the village, but it was also responsible for managing collectively owned land in the village. This meant, if property developers intended to conduct property-development projects on collectively owned land in Childer Village, they needed to obtain official approval from Childer Village.

This was an important step forward in Kong's career development, as he for the first time was involved directly in the management of land. This enabled him to build on his

previous work experience as an administration officer specialising in land management in Station Sub-district Office of Local City by gaining experience of direct management of village land. Another contributing factor may be the relationships Kong had with other Committee members. Wen saw Kong's opportunity as a member of the Childer Village Committee as remarkable, because at this time Kong only had two years' work experience and it was very difficult for people with so little work experience to gain such a good job opportunity. In Wen's view, Kong's entry to the Village Committee was closely related to his family background. Wen recalled:

Kong has a big family with quite a few family members in the Childer Village Committee: one-third of the village committee members were Kong's relatives. As new village committee members were elected by existing village committee members, so it was very easy for Kong to become a village committee member (Interview, Wen, 21/02/2012).

In this case, the nepotism involved could be regarded as a positive factor for Kong's development. When Kong was a village committee member between 1982 and 1993, his specific responsibility was to manage issues relating to property development and he did not take on such important roles as Mayor or Deputy Mayor of the Village Committee (Interview, Wen, 21/02/2012). In Wen's mind, as Kong had such a strong background in the Village Committee, he would be easily elected to act in more important roles, such as Mayor or Deputy Mayor of Village Committee. However, his family decided that Kong should start from the bottom using this knowledge of land administration and then work towards higher positions. This decision clearly gave Kong the opportunity to deal with the details of the property-development industry, which was significantly different from his previous position of being an officer administrating property-development-related issues. This work experience provided Kong with practical opportunities to develop further and more comprehensive insights into the property-development industry. This was an obvious contrast to officials who were appointed to key positions through nepotism with no relevant experience for the work itself.

This work experience then brought Kong another opportunity to be a leader in this area when Childer Village established their own village-owned property-development company. This role in Childer Village Property was extremely significant to Kong's career development, because it put him in a position where it was possible for him to

privatise this company making it his own, East Property. In 1994 in response to the emerging housing market in Local City, Childer Village established a village-owned property-development enterprise, Childer Village Property. Han, who became the Village Mayor in 1996, recalled that it was very easy to set up a property-development enterprise at that time (Interview, Han, 06/03/2012). In Han's words, "the establishment process was so much easier than now" (Interview, Han, 12/07/2012). Kong shared a similar view as Han. Kong recalled:

At the time of establishing Childer Village Property, there were only around 15 property-development companies in Local City. It was very easy to set up a property development company and to obtain land resources. This was especially the case if you have close relationship with government officials in relevant government departments (Interview, Kong, 14/07/2011).

However, the Village Mayor did not pay much attention to property development and no project was implemented until 1996, even though the legal right to conduct property-development projects was obtained in 1994. When interviewed, Han explained the reason why Childer Village Property did not have a single property-development project was that the former Village Mayor did not care about property development. He did not realise the potential of conducting property-development projects, and in any case there were not sufficient staff in Childer Village to manage property-development projects at that time (Interview, Han, 12/07/2011).

The situation of ignoring property development was completely changed after a change of Village Mayor and Kong obtained the opportunity to be the Deputy General Manager of the Childer Village Property. In 1996, Han replaced the old Village Mayor and also became the General Manager of Childer Village Property. This enabled him to initiate the first property-development project of Childer Village (Interview, Han, 12/07/2011). Shortly after Han became the Village Mayor, he made Kong the Deputy General Manager and legal representative of Childer Village Property (Interview, Wen, 21/02/2011). Between 1996 and 2002, Childer Village Property completed four major property-development projects. Table 6.3 summarises the key information of the four projects. Childer Village Property met various barriers during these projects; how the barriers were overcome is discussed in the following sections. The enterprises developed within a complex political and legal situation where the relationships with Han, the Village Mayor, and Kong, the property developer, were crucial.

Table 6.3 Property-development projects of East Property before privatisation

Project		Starting Year	Description of project	Major barriers
Before privatisation	Residential Area One	1997	Residential units for villagers in Childer Village. This project was not popular.	Regulatory, land-access
	Residential Area Two	2002	Residential units for villagers in Childer Village.	Land-access, financial
	Two residential buildings for Childer Village	2002	Residential units for villagers in Childer Village.	Land-access, financial
	Harmony Garden-first stage	2004	A mixed-use commercial and residential project.	Land-access, financial

Sources: Interviews, Han, 12/07/2011, 06/03/2012; Interview, Wen, 21/02/2012; Interview, Kong, 14/07/2011.

6.3.1 Residential Area One – before privatisation

In 1997, Childer Village Property started its first development project, Residential Area One. Although this was not an open market-oriented activity, for instance, Residential Area One did not have a specific commercial name and its main purchasers were villagers in Childer Village, it was a sign of things to come. From the point of view of the Village Mayor, the convenient location of Childer Village made property-development projects a logical development strategy for the villagers (Interview, Han, 12/07/2011). As Han noted, the initiation of this project was related to the government policy of “Old Village Renovation” at that time (Interview, Han, 12/07/2011). There is not much evidence from which to gain a better understanding of the details of the local government policy. Han indicated that with the implementation of the “Old Village Renovation”, Childer Village could obtain more favourable terms from local government when conducting property-development projects. However, Han chose to use Childer Village Property as the formal developer for the project. Although there were other property developers in Local City, Childer Village Property being the village-owned enterprise, is likely to have been cheaper and easier for Han to use. Han recalled:

The government policy at that time was that villages could not conduct property-development projects by themselves. Property-development projects can only be

conducted by qualified property-development enterprises. Therefore, Childer Village needed to use Childer Village Property as the developer in order to conduct property development legally (Interview, Han, 12/07/2011).

Seen from the viewpoint of the enterprise, Kong's role was as the person in charge of details who overcame the barriers occurred during the development process. Wen reported that Kong played a vital role in two aspects in Residential Area One. The first was that Kong was the key person who sought ways to overcome the land-access barrier and obtain official approval from local government for this project (Interview, Han, 12/07/2011; Interview, Wen, 21/02/2012). Obtaining approval from local government was important to the project. This was because, without legal approval, the project could be considered illegal and could be terminated at any time. The methods Kong used to overcome this land-access barrier were characteristic of the approach being taken to business opportunities in China at this time. Wen recalled:

Kong did make great efforts in obtaining official approval for this property-development project. For example, in order to obtain the approval from the Director-General of the local Bureau of Land and Resources, he treated the Director-General to an extravagant lunch in a restaurant. He was nearly drunk at that lunch. After the lunch, Kong invited the Director-General for dinner at Kong's home on the same day. Kong started the dinner with drinking wine with the Director-General to show his respect for the Director-General. And he kept drinking for quite a time during that dinner without eating anything. Kong's this behaviour impressed the Director-General. And he finally obtained the official approval from the local Bureau of Land and Resources (Interview, Wen, 21/02/2012).

In China, drinking at banquets plays a vital role in establishing and maintaining relationships with key government officials who are in charge of resources, and it is also used as a method to establish and maintain this relationship aimed at overcoming barriers for business development. Yang (1994, p. 197), in her research into the art of social relationships in China, explains the phenomenon of gift giving, favours, and banquets in China. Yang (1994, p. 197) notes that receiving gifts or being provided with banquets may soften one's will. As a Chinese saying says, *chi ren zui ruan; na ren shou duan*, which means "eating from others, one's mouth becomes soft; taking from others, one's hand becomes short". The result would be that mouths that have eaten and hands that have taken would become "easy to persuade" (Yang, 1994, p. 198). So one giving gifts would be more likely to receive favourable terms from the recipient. In research into ethical management of business relationships in China, Steidlmeier (1999, p. 123)

concludes that in doing business in China, it is very important to be aware of practices, such as etiquette in eating and drinking, and gift giving and receiving. Chinese may consider it rude not to drink at formal dinners. This may especially be the case when drinking with government authorities. On the other hand, if proper etiquette in eating and drinking is conducted at formal banquets with government authorities, it may be seen as respect for the government authorities. Therefore, the relationship with them might be established and maintained more easily, and there may be more possibility of obtaining resources from them to overcome business barriers. In Kong's case, he used this method to obtain official approval from the government official, which was also a solution to the land-access barrier.

The second aspect where Kong played a significant role was during the construction phase of Residential Area One, when he was responsible for the daily management of Childer Village Property. In Wen's view, although Han was the General Manager of Childer Village Property, Kong, the Deputy General Manager, was the actual person who managed the enterprise and organised construction for Residential Area One (Interview, Wen, 21/02/2012). Thus, Kong's capacity to influence officials and his ability to manage the day-to-day operation of Childer Village Property were both vital to the enterprise in its initial phase.

However, Residential Area One was not very popular with villagers in the beginning. Han indicated the reason was closely related to villages' perceptions of commercial units. Previously, under the planned economy, land was allocated to each household, which was then used by villagers themselves to build houses. There was no market for land and no understanding of a need for one. So, when residential units in Residential Area One were offered for sale to villagers, they could not accept the fact that they needed to pay for the units. In Han's words, this was the case even though the selling price was very low, at around RMB 40,000 (US\$6,397) per residential unit while the market price then was about RMB 100,000 (US\$15,994) per residential unit (Interview, Han, 12/07/2011). It seems that there was no immediate method to increase sales to villagers, because they simply saw no reason to purchase private property to live in. Han recalled:

Sales of these residential units became better gradually as China's opening up progressed. Slowly, people realised that they would no longer obtain houses through allocation and they started to purchase (Interview, Han, 12/07/2011).

The development of Residential Area One did not bring Childer Village and Kong much financial benefit, as the units were sold at relatively low prices. However, through this property-development project, Kong became familiar with the property-development process.

The relationship developing between Kong and Han is worth noting because the relationship between them was essential to their later business activities and it was cemented by an event at this time. One day during the period of developing Residential Area One, Kong was drunk and had a traffic accident on the road next to Childer Village. Wen recalled that one villager from Childer Village was killed by Kong in this traffic accident (Interview, Wen, 21/02/2012). This accident, especially as one villager was killed, may have affected Kong's career development, because he may be considered a murderer by other villagers. In order to save Kong from being arrested by the police and to assist him with his career, Han used his relationship with the Local City Police and his position as Village Mayor. Wen recalled that Han, on behalf of Kong, promised to the bereaved that they would receive some compensation, but the condition attached would be that they had to keep the cause of their relative's death a secret (Interview, Wen, 21/02/2012). The bereaved agreed with Han, but in fact the payment came from Childer Village, not from Kong's personal account. As a result, Han had successfully saved Kong from being arrested and he also saved Kong's reputation, especially with the villagers, which was essential to his future as an entrepreneur.

This event is relevant to this research, because this event may have placed Kong in Han's debt and this may further affect the way Kong reacted to Han's later control over Childer Village Property. As Han not only saved Kong from being arrested but also protected his reputation, Kong may have felt that he owed *renqing* to Han. Luo's (1997, p. 45) research into the principles, philosophies, and implications of *guanxi* in China, defines *renqing* as "unpaid obligations to the other party as a consequence of invoking the *guanxi* relationship". This *renqing* Kong owed to Han may have contributed to the explanation of Kong's acquiescence in Han's tight control in Childer Village Property's

later projects. On the other hand, Han's willingness to go to these lengths to protect Kong indicates that he had already decided to support Kong's activities and to regard Kong as one of his people.

6.3.2 Residential Area Two – before privatisation

In 2000, Childer Village Property contracted to Kong. Nominally, Kong was responsible for the business operation, but in fact, Han seemed to retain significant control of the company. Han explained that, with this contract, Kong would be responsible for the profit and loss of the company, and Kong needed to pay RMB 300,000 (US\$47,958) per annum to Childer Village (Interview, Han, 06/03/2012). This could be understood as a kind of rent for the company. It meant the ownership of Childer Village Property still belonged to Childer Village, but Kong controlled its operation and under any financial circumstances, must pay RMB 300,000 (US\$47,958) per annum to Childer Village. This would be a good arrangement for Kong because it overcame several barriers to his operating as a property developer, and if the profit was more than RMB 300,000 (US\$47,958), he would retain the excess profit.

One immediate issue was that Kong could not retain so much profit when developing projects because of Han's tight control over the Childer Village Property. An example arose in 2002, when Residential Area Two was started. Similar to Residential Area One, Residential Area Two was a project with residential units and the targeted consumers were mainly villagers of Childer Village. Han recalled:

I only made use of the Childer Village Property as the developer. But they were not responsible for the management. In addition, the sales revenue went to Childer Village, not Childer Village Property (Interview, Han, 06/03/2012).

This may indicate that Kong acted as a puppet manipulated by Han and the profit generated from Residential Area Two was retained by Childer Village, not Kong, as the official developer of the project. This phenomenon may be partly caused by the delicate relationship between Kong and Han. As mentioned earlier, Kong owed Han *renqing* because of the way he dealt with the traffic accident. This situation of owing *renqing* to Han might have meant that Kong could not refuse Han's request of retaining profit from the property-development project. The other factor contributing to this phenomenon may be the contractual relationship between Childer Village and Childer Village

Property. At that time, the operation of Childer Village Property was based on *cheng bao ze ren*, which means contracting and responsibilities. The basis of contracting and responsibilities led to the separation of ownership and management. Although Kong was, in theory, and in most respects in practice, responsible for the operation of Childer Village Property, he had to rely heavily on Han to obtain land and funds, because Han played a vital role in overcoming land-access and financial barriers for Childer Village Property. Owing to the lack of funds, the only land source was the village-owned land, which could only be developed with Han's permission. Thus, the management of Childer Village Property was significantly influenced by Han. This relationship between Childer Village Property and Childer Village was confirmed by Han's accounts.

Han's view was that because Childer Village Property was relatively small in scale, and did not have any funds or construction teams, it could not really operate independently. In order to overcome these barriers, Childer Village invested funds in property-development projects and Kong employed construction companies to build the project. In Han's view, this meant that Childer Village Property was more like a management-oriented subsidiary company under Childer Village, rather than an independent property-development company: Childer Village provided funds, and Kong supervised the construction team and collected management fees from Childer Village (Interview, Han, 12/07/2011). From Han's viewpoint, this was a necessary complication. As he pointed out, he "had no choice but to use Childer Village Property as the official developer because of the government policy". This may indicate that if Han could conduct property-development in his own right, he may not even want to share the profit with Kong. Han noted:

It was a regulatory requirement that all property-development activities must be carried out by legitimate companies. Organisations and individuals without the legal certificate could not conduct any property-development projects. With this regulatory requirement, all Childer Village's property-development projects must be conducted under Childer Village Property's name. Therefore projects such as Childer Village's office buildings and residential buildings must be conducted with Childer Village Property's name. This meant that if Childer Village wanted to construct a building, they needed to borrow Childer Village Property's certificate. When the buildings were completed, Childer Village Property could then transfer the ownership to Childer Village (Interview, Han, 12/07/2011).

6.3.3 Two residential buildings – before privatisation

In 2002, in addition to Residential Area Two, Childer Village Property developed another project for Childer Village, two residential buildings without a formal project name. The land used was owned by Childer Village and it was located in Childer Village. Kong used a familiar approach to overcome the financial barrier: using consumers' prepayments to pay the land costs to Childer Village (Interview, Kong, 14/07/2011). When interviewed, Kong indicated that Han's control over Childer Village Property had restricted the development and growth of the enterprise. Kong recalled:

These two residential buildings had generated a profit of RMB 800,000 (US\$127,889). I knew that Han would ask me for money, so I hid RMB 400,000 and told Han that the two residential buildings only generated a profit of RMB 400,000. As I thought, Han called me and asked me give him RMB 300,000 (Interview, Kong, 14/07/2011).

Again, the relationship between Kong and Han was delicate and this relationship provided both disadvantages and advantages to Childer Village Property. On one hand, Kong implied that Han used this RMB 400,000 (US\$64,253) for personal use, which might be regarded as corruption. Kong also hinted that Han was a greedy person who did not care about the growth of Childer Village Property, but wanted to use his position as Mayor for personal advantage. Kong stated that if he told Han that the project had generate a profit of RMB 800,000 (US\$128,507), "he may ask me for something like RMB 700,000 (US\$112,444) or even more" (Interview, Kong, 14/07/2011). In this view, Han's tight control over Childer Village Property created an obstacle for the company's growth, which especially created financial stress for the company, so Kong had to hide the profits. As mentioned earlier, Kong's action of hiding profit instead of reporting Han' corrupt behaviour may be related to that fact that Kong owed *renqing* to Han. Even though Kong was aware that Han's control had restricted the company's growth and Han's corrupt behaviour reduced funds available for reinvestment, he did not take any other actions apart from hiding the profits. On the other hand, not taking any legal actions may benefit Kong at the same time, because Kong needed Han's help to obtain funds and village-owned land, as a solution to the land-access and financial barriers.

This situation of Kong being a puppet and Han acting simultaneously as an obstacle and a facilitator for Childer Village Property continued until the first stage of Harmony Garden Project, which provides a good example of this dichotomy. The situation was then changed after the privatisation of Childer Village Property in 2005.

6.4 Harmony Garden

In 2004, Han initiated another property-development project, named Harmony Garden. Harmony Garden was also located in Childer Village, on a piece of village-owned land. Harmony Garden was a mixed-use commercial and residential project, which was divided into two stages. Both Han and Wen remembered that the first stage was constructed by Childer Village Property with Kong in charge of the project, and the second stage was developed after the privatisation of Childer Village Property (Interview, Han, 06/03/2012; Interview, Wen, 21/02/2012).

Han was once again significant in removing the land-access and financial barriers for Kong in the first stage of Harmony Garden. A discounted land price and delayed payments were the two main methods used to remove the barriers. Han noted that he sold the land on behalf of Childer Village to Childer Village Property at a discounted price, RMB 70,000/mu (US\$11,190/mu), because Childer Village Property was a village-owned enterprise (Interview, Han, 12/07/2011). Nominally, Han gave favourable terms to the village-owned property-development enterprise, but in fact, he probably expected to receive financial benefit personally, as he did previously from Residential Area Two. The main barrier Kong met at that time was the lack of funds to develop the project. However, as Han said, the financial barrier could be easily overcome by selling units off the plan. Once local government approved the project, they could sell residential units off the plan and collect prepayment from customers to pay for the land as well as part of the construction costs (Interview, Han, 06/03/2012). The first stage of Harmony Garden generated a profit of RMB 1 million (US\$159,861). It seems that Childer Village obtained most of the profit, and Kong claimed that he did not earn much from the project (Interview, Kong, 14/07/2011). However, the exact amount of the profit retained by Kong was difficult to check, as both Kong and Han were reluctant to disclose the exact amount in interviews.

As mentioned earlier, the situation in the second stage of Harmony Garden was different from the first stage, as the second stage was conducted by East Property, the privatised enterprise of Childer Village Property. In Han's recollection, Kong earned a much larger profit from the second stage of Harmony Garden, which laid a solid foundation for his later project, Leisure Garden (Interview, Han, 06/03/2012). In 2005, Childer

Village Property was privatised, with Kong as owner. It was renamed East Property. The transfer of ownership to Kong may partly be related to the fact that he was the General Manager of Childer Village Property, and it may also related to the delicate relationship between Kong and Han, where Han could easily obtain personal benefits by giving favourable terms to Kong. As we shall see later in the narrative, this mutual benefit was fundamental to East Property's development.

In 2003, a government policy triggered the privatisation of Childer Village Property. In 2003, Local City government advocated that collectively owned enterprises should become privatised, under *gaizhi* the "Zhucheng model" (Local City Local History Office, 2003). The following section briefly reviews China's privatisation and the "Zhucheng model" to provide background information for the privatisation of Childer Village Property. The discussion of China's privatisation and the "Zhucheng model" is relevant to this research, as they explain the circumstances under which East Property was established and drawn to its land-access barrier solution.

Academic researchers have discussed China's privatisation extensively (Cao, Qian & Weingast, 1999; Wu & Ding, 1997; Yao, 2004; Zhao, 1999). Although China's economic reform started in 1978, Yao (2004, p. 253), in his research into government commitment and the outcome of privatisation in China, argues that China's real privatisation began after Deng Xiaoping's visit to south in 1992. China's privatisation started with localities. Yao (2004, p. 253) argues that the most important impetus for local privatisation was the huge amount of debt accumulated in the state sector and he sees privatisation as a solution to assist the government in getting rid of the debts. Zhucheng of Shandong province was one of the pioneering cities in the process of privatisation. Cao and his colleagues (1999, p. 109), in their research into China's privatisation, note that Zhucheng's privatisation process started in 1992 and that in 1994, the trend of privatisation spread to the whole country because the outcomes of privatisation were seen as successful. However, the outcomes from privatisation were not the same in all localities. For example, Liu, Wang and Yao (2001), in their study on the social and economic dynamics of the Chinese village, show that many privatised firms in southern Jiangsu Province, which was formerly known for its collective firms, met problems such as asset stripping. However, there were good performers, for instance, Zhucheng of Shandong Province and Shunde of Guangdong Province, and

privatisation in Local City was directly inspired by the privatisation process of Zhucheng.

Zhucheng's privatisation of small SOEs was seen by researchers as both radical and successful with almost all its SOEs and collective companies being privatised rapidly (Yao, 2004, p. 253). Wu and Ding (1997) note that 37 out of 50 SOEs in Zhucheng were privatised by 1995, while 235 of its 238 urban collectives were privatised in the same period. The remaining companies were state-owned utility and transportation companies. As well as the large scale of Zhucheng's privatisation of SOEs, it was the results of privatisation that made the "Zhucheng model" so popular. Wu and Ding (1997) compared firm performance before and after privatisation and found that, before privatisation, the majority of SOEs operated at a loss; while after privatisation, all firms were making profit. In 1992, the total profits from these former SOEs were RMB 25 million (US\$3.9 million), while by 1995, their total profits had increased to RMB 136 million (US\$21.7 million) (Wu & Ding, 1997).

Local City learnt from Zhucheng's successful privatisation experience and planned to privatise its collective firms in a similar rapid way. Han noted that by 2005, it had almost become a compulsory government requirement to privatise the collective firms regardless the firm's previous performance. This meant that if collective firms such as Childer Village Property were not privatised, the company would be closed by the local government and its property-development certificate would then be cancelled (Interview, Han, 06/03/2012). Under these circumstances, Childer Village Property was privatised by direct transfer of ownership to a new property-development enterprise, East Property. And the sole owner of East Property was Kong. Kong, however, stated the agreement with Childer Village to privatise the Childer Village Property was "extremely unfair" to him (Interview, Kong, 14/07/2011). Kong recalled:

An important reason to privatise Childer Village Property was to resolve the serious loss in Childer Village's other collective firms, such as the electric motor firm and maintenance firm. As a condition attached to the privatisation of Childer Village Property, Han asked me to bear a debt of RMB 500,000 (US\$80,093) (Interview, Kong, 14/07/2011).

This reason to privatise Childer Village Property as a solution to relieve the collective firms' weak performance is consistent with the privatisation experience reported by

researchers elsewhere in China (Cao et al., 1999; Guo & Yao, 2005). However, in contrast with the improved performance of most privatised firms in Zhucheng, the privatisation process itself did not bring profits to East Property. Instead of making it possible to operate more effectively, the privatisation process itself created financial and land-access barriers for East Property. Being a newly privatised property-development enterprise with no accumulated capital and heavy debts, Kong's company did not have sufficient funds to purchase land. Han described Kong's situation at that time as "very poor". Kong only had about RMB 50,000 (US\$8,006) at the time of establishing East Property (Interview, Han, 12/07/2011). The fund was too little to keep the business operating.

Kong and Han's solution to overcome the financial and land-access barriers was to obtain the land for the second stage of Harmony Garden from Childer Village and use it to develop residential units. When interviewed, Han explained that his reason for supporting East Property in the new venture was that it was previously a village-owned enterprise, and Kong had maintained good relationship with him. However, another reason may be that Han could receive financial benefits from Kong as he had before the privatisation of Childer Village Property. In fact, Han's later resignation as Village Mayor was mainly caused by the claim that he had taken bribes of around RMB 6 million (US\$962,178) from Childer Village Property and East Property (Interview, Wen, 21/02/2012).

Delaying land payment to Childer Village also contributed to addressing the land-access barrier. The second stage of Harmony Garden was in the same part of Childer Village as the first stage, and the project included four residential buildings. Han agreed to sell the land to Kong at RMB 150,000/mu (US\$24,020/mu), although he knew that Kong did not have sufficient funds to pay for the land. Han overcame this problem by simply telling Kong that he could pay the land expenses whenever he had enough funds to do so (Interview, Han, 12/07/2011). This was a direct solution to Kong's land-access barrier and it may also be an efficient method of relieving Kong's financial stress, as he was able to sell the units off the plan and use the prepayments from consumers to pay the outstanding debt on the land.

The second stage of Harmony Garden proved to be a success for Kong. Han mentioned that Kong had received a profit of around RMB 1 million (US\$160,115). In Wen's mind, Kong could have earned more profit if he had used a better sales approach (Interview, Wen, 21/02/2012). Wen stated that a large proportion of profit was retained by the sales agent, which reduced the total profit earned by Kong:

Kong used a sale agent specialising in residential unit sales. However, he did not have sufficient management mechanisms to ensure that the sales were accurately recorded in financial statements and payments were received. Therefore, this left the sales agent with the possibility of retaining profits for themselves (Interview, Wen, 21/02/2012).

The evidence of East Property's inadequate company structure and corporate governance is also illustrated by Kong's accounts. Kong recalled that he only had four full-time employees for the general management of the company. When there was a property-development project, he would then employ more management staff (Interview, Kong, 14/07/2011). He argued that this reduced the management costs of the company, as he did not need to pay salary to staff when there was no property-development project in progress (Interview, Kong, 14/07/2011). The problem this created became more obvious in Kong's later project, Continental project, in which he was cheated by his business partner and was involved in three lawsuits. One of the three lawsuits was still awaiting court decision at the time of the fieldwork for this research. This situation would not have arisen if Kong had employed sufficient management staff to monitor the business properly. This company structure was also an obvious contrast from the previous two cases, Yang's Property and Wisdom Property, where they had full-time employees dealing with specific business issues in a professional way.

Regardless of East Property's irregular company structure of, the RMB 1 million (US\$160,115) earned from the second stage of Harmony Garden relieved Kong's financial burden. It enabled Kong to consider and prepare for his later property-development projects. From the privatisation until the time when this current research was conducted, East Property completed four property-development projects. Table 6.4 includes the key information about these projects being conducted after privatisation.

Table 6.4 Property-development projects of East Property after privatisation

Project		Starting Year	Description of project	Major barriers
After privatisation	Harmony Garden-second stage	2005	A mixed-use commercial and residential project.	Land-access, financial
	Leisure Garden	2005	Residential units.	Land-access, financial
	Oak Tree	Started acquisition in 2005	A mixed-use residential and commercial project.	Land-access
	Continental	Started acquisition in 2006	Residential units.	Regulatory, financial, internal management

Sources: Interviews, Han, 12/07/2011, 06/03/2012; Interview, Wen, 21/02/2012; Interview, Kong, 14/07/2011; Interview, Meng, 05/03/2012.

During the construction process of the second stage of Harmony Garden, Kong realised another opportunity had arisen. A piece of land which was located next to Childer Village became available and Kong used this to construct his second property-development project, named Leisure Garden.

6.5 Property-development project 2: Leisure Garden

The land where Leisure Garden was built was directly across the road from Childer Village. It was initially owned by Local City Bureau of Communications and had a total area of around 30 mu (19,980 sq m) with the purchase price at RMB 400,000/mu (US\$64,074/mu) (Interview, Kong, 14/07/2011).

Kong obtained the land for Leisure Garden through collaboration with the Director-General of Local City Bureau of Communications. When interviewed, Kong was reluctant to talk about why and how the Director-General assisted him in obtaining the land. However, Wen recalled that Kong's accounts indicated the existence of a partnership between the two men. In, particular, he referred to a "clear work division" between Kong and the Director-General, in which:

The Director-General was responsible for obtaining the legal land-use rights for Kong and Kong would then be responsible for conducting property-development activities on this piece of land (Interview, Wen, 21/02/2012).

By saying this, Wen implied that the Director-General might receive personal benefits from Kong, as they established an informal partnership to implement this project. In terms of payment for the land, Kong revealed that the agreement with Local City Bureau of Communications was signed before the privatisation of Childer Village Property in 2005, and part of the land payment was paid to the Bureau of Communications (Interview, Kong, 14/07/2011). This clearly suggests that this part of the land payment was actually made by Childer Village Property or Childer Village.

As with Kong's previous project, by maintaining a good relationship with government officials in bureaux relevant to property development he had succeeded in smoothing the transaction. In the case of Leisure Garden, the land-access barrier was overcome through collaboration with the Director-General of Bureau of Communications. In particular, this land-access barrier may have been overcome by Kong bribing the Director-General. This points to a particular set of barriers faced by Chinese property developers. Existing research attempts to illustrate similar situations where reciprocity between businesses and officials may be seen as corrupt.

It may be difficult to judge the balance between reciprocity and bribery. As Steidlmeier (1999, p. 125) argues, bribery "connotes a wrongful transfer of resources between parties". When selecting partners for developing the projects, the Director-General may have been aware that there were more experienced developers, however, he may have put his personal interests in obtaining financial benefits above other needs and finally collaborated with Kong. In the environment facing Chinese entrepreneurs at this time, the formal institutions such as regulations and laws were relatively weak, and entrepreneurs relied on informal institutions, such as those embodied in interpersonal ties with government officials cultivated by entrepreneurs, to obtain information and resources. This method of removing barriers has been noted as effective by several researchers. For instance, Luo (2007, p. 85), in his research into *guanxi* and business in China, concludes that in China, where thousands of rules, laws, and regulations are enacted with almost none being completely enforced, personal connections with government officials play a significant role in obtaining resources and improving firm performance. Luo (2007, p. 85) notes that when there are scarce resources, they will largely be allocated through personal ties with government officials rather than bureaucratic rules. Relationships between government officials and business people

then acted as a way to circumvent rules through cultivation of personal connections. This may be intertwined with corruption.

Kong also confronted a financial barrier in the case of Leisure Garden. Although Kong had earned a profit of RMB 1 million from developing the second stage of Harmony Garden, it was unlikely to be sufficient to pay the remaining land expenses to Childer Village. To remove this financial barrier, Kong used a similar method to that which he used in case of Harmony Garden. He delayed the payments to the construction company and collected prepayments from consumers. Wen recalled that Kong told him that he used none of his own money to conduct this project (Interview, Wen, 21/02/2012). In this case, Kong's solution to the financial barrier largely relied on trade credits from the construction company. This is related to the relatively difficulty of obtaining bank loans. It also shows, however, that the construction company held a high level of trust in East Property and they agreed that East Property could delay the payments to them.

While conducting the Leisure Garden project, in 2006, Kong gradually moved his business emphasis from Local City to North City, about 60 kilometres from Local City. There were two major reasons for Kong's move to North City. Kong explained the first was the relative ease of obtaining land in North City. Compared to Local City, North City was less economically developed and therefore there was less competition in the property-development market. Kong recalled that this affected his opportunities favourably in several ways:

It was very difficult to obtain land in Local City. However, it was very easy to get access to land in North City. The design concepts in North City were also less developed than Local City. So I used designers from Local City for my projects in North City, their design concepts were at least five years more advanced than North City. It was less risky to conduct property-development projects in North City, as the residential units in those property-development projects could be easily sold (Interview, Kong, 14/07/2011).

The other reason for Kong's move to North City may be that his relatively easy access to land from Childer Village had come to an end. As mentioned above, in 2006, Han resigned as Mayor of Childer Village. Some villagers claimed this was because Han had taken a huge amount of bribes, around RMB 6 million (US\$962,178). Previously, Han gave land to Kong because of their relationship, and Han also stated that he gave land to Kong because Kong's company had become the owner of Childer Village Property

which was village owned (Interview, Han, 06/03/2012). However, after Han's resignation, one of Han's enemies became the new Village Mayor. It then became very difficult for Kong to continue obtaining land from the new Village Mayor, as the new Mayor probably saw Kong as being one of Han's trusted followers and would not deal with him. This did not mean an end to property development based on personal relationships. There were still huge profits to be made and it came as no surprise to observers, such as Wen, that the new Village Mayor's wife established a property-development company, Company Fenner, to replace East Property and continued conducting projects in Childer Village (Interview, Wen, 21/02/2012). This meant that Kong had to seek other ways of obtaining land if he wanted to continue his property-development business. His decision to search for opportunities in other less-developed cities, such as North City, therefore involved push as well as pull factors.

This situation again illustrates that personal connections with officials who had power in allocating scarce resources, such as land, had huge impacts on East Property's performance. Previously, Kong had the ties with Han, which facilitated his obtaining land and funds. This in turn reduced East Property's costs, as Kong received a discounted land price and he could also delay payments to Childer Village. Therefore, the personal networks possessed by Kong and his administrative superior, Han, had a positive impact on the firm's performance. However, after Han's resignation, Kong no longer had privileged access to land resources from Childer Village. Moving to a less-developed city to conduct property-development projects may be a solution to the land-access barrier, as property developers like Kong may be more likely to obtain regulatory benefits from the local government in these less-developed cities. Compared to property developers in these less-developed cities, East Property may be more advanced and experienced in design concepts. In North City, Kong conducted two property-development projects: Oak Tree project and Continental project. The specific barriers Kong had met and how they were overcome are addressed in the following section.

6.6 Property-development project 3: Oak Tree

As mentioned earlier, while Kong was conducting the Leisure Garden project in 2005, he started the land-acquisition process for the Oak Tree project in North City. Similar to the previous two cases of this company's land acquisition, the process was not a simple

one, but took a considerable period of time. The Oak Tree project was a mixed-use residential and commercial project with total construction area of 90,000 square metres (Soufang Net, 2012). This project was located in the CBD of North City with easy access to major shopping centres (Soufang Net, 2012). This meant that this project should be very popular and had high potential to generate profit.

Even though North City had a less-developed market economy than Local City, the personal network with government officials still had impacts on East Property. Kong mentioned that he obtained the land through a person who had connections with government officials of North City (Interview, Kong, 14/07/2011). The land was obtained, however, at a price of RMB 400,000/mu (US\$64,113/mu), which Kong saw as not a low price in this market. He also mentioned that the commission paid to the “agent” added an amount of RMB 3 million (US\$480,853) to the cost of the project (Interview, Kong, 14/07/2011). It seems likely that Kong was implying that part of the RMB 3 million (US\$480,853) was paid to the government officials involved in this transaction.

In the case of Oak Tree project, Kong’s relationship with the government official is less likely to have been *guanxi*, and more likely to have been a direct financial relationship. Luo (2007, p. 215) examines the differences between *guanxi* and corruption in his research into *guanxi* and business in China. He argues that one significant difference between *guanxi* and corruption is the basis of exchange. *Guanxi* is usually built on the basis of an exchange of favours whereas corruption mostly involves monetary exchange (Luo, 2007, p. 216). Another difference is that *guanxi* usually develops a long-term orientation while corrupt deals are based on a short-term “transaction” (Luo, 2007, p. 217). In Luo’s definition, Kong’s action in giving money to an official in this case would be clearly regarded as corrupt behaviour. Looked at from the company’s point of view, however, the main outcomes were legitimate. In this regard, overcoming the land-access barrier by bribing government officials had both positive and negative effects on East Property. Positively, the result of corruption was that East Property managed to obtain land in North City where the company had no previous history or *guanxi* to drawn on. However, the negative impact was that the costs of the project to East Property had been increased, because of the need to pay both a legitimate market price as well as a bribe.

Nevertheless, Oak Tree proved to be a success for Kong. Although Kong himself did not disclose the profit he made from it, Meng, a lawyer involved in Kong's lawsuits, mentioned that Kong made a profit of RMB 30 million (US\$4.8 million) from the Oak Tree project (Interview, Meng, 05/03/2012). In Wen's view, the major reason for Kong's success in Oak Tree was that he was one of the pioneers who started conducting property-development projects in North City, when the demand for housing in North City was greater than the supply (Interview, Wen, 21/02/2012). Kong mentioned another reason for his success in Oak Tree project was the relative lack of regulation. North City was located in a position between Local City and Red City, and there had been historical disputes about jurisdiction over North City (Interview, Kong, 14/07/2012). This meant that North City could not be effectively regulated under either Local City's or Red City's policies.

The success of the Oak Tree project not only generated significant profit for Kong, it also established East Property's good reputation and corporate image in North City, which assisted Kong in overcoming the land-access barrier and obtaining land for his later Continental Project. For example, Kong received some favourable terms at the beginning of Continental project from the North City government, which are addressed in detail in Section 6.7. However, the relative ease of obtaining land may not continuously guarantee a high profit. This was the case for Kong as the market circumstances were changing and other competitors also began to provide residential units with similar or even better designs. This became a problem for Kong in his second project in North City, Continental project.

6.7 Property-development project 4: Continental

In 2006, while conducting Oak Tree project, Kong started to plan for his second project in North City. Through the development of the Oak Tree project, East Property gradually established its reputation in North City, where the company successfully presented itself to the local residents as a property-development company with strength in architecture design and construction quality (Interview, Kong, 14/07/2011). Kong's lawyer, Meng, revealed that at the beginning of the process for acquiring land, East Property was granted some favourable terms by North City government. For example, at the public auction of the land for Continental project, North City government made

East Property the only eligible applicant by tailoring auction requirements to suit East Property's features (Interview, Meng, 05/03/2012). Meng also stated that after the deposit had been paid, North City government issued the land certificate to East Property before full payment had been made (Interview, Meng, 05/03/2012). Obtaining the land certificate in advance not only relieved Kong's financial stress, but also enabled him to use the land certificate as security to apply for bank loans. Thus, local government once again played a significant role in assisting Kong to overcome the financial barrier in this project. This may be partially because of East Property's good corporate image and reputation, and it may also be related to the relationship between Kong and key local government officials, which is addressed later in this section.

Before that, however, a brief description of Continental project will establish the context for the following discussion. Continental was a residential project with the total construction area of 60,000 square metres (sq m) (North City Information Net, 2007). Similar to Oak Tree, Continental was located in the CBD of North City with convenient access to facilities such as shopping centre, kindergarten, school, and hospital (North City Information Net, 2007). The whole project was split into three stages. When interviewed during the first field trip for this research, Kong was reluctant to talk about anything relating to Continental project. He tried to hide information on this project and stated that he only had Oak Tree project in North City. During a second field trip between February and March 2012, it was possible to use my personal networks to obtain access to Meng, the lawyer who was responsible for Kong's three lawsuits with regards to Continental project. Meng became a key informant for the research on Continental. The knowledge he had about the project as well as the legal issues arising have been balanced against Wen's account, from his point of view as Kong's close friend. Together these sources make a detailed and comprehensive discussion of the project possible.

The relationship between Kong and government officials in North City that had developed during the Oak Tree project was significant for the success of Continental project. Both Meng and Wen mentioned that Continental was developed by Kong and his business partner, Mr Chen, who was the cousin of the Vice Mayor of North City (Interview, Meng, 29/02/2012; Interview, Wen, 21/02/2012). Meng stated that in order to smooth the business operation, Kong established a subsidiary company in North City

to conduct Continental project. The subsidiary was owned 51 percent by East Property and 49 percent by Chen (Interview, Meng, 29/02/2012). As agreed by Kong and Chen, Kong invested RMB 10 million (US\$1.6 million) and Chen invested RMB 9 million (US\$1.4 million) to start the project. Wen also mentioned that Continental received support from the local government in North City. Wen recalled the Mayor of North City considered it an important project for North City and the Mayor attended the opening press conference and the ribbon-cutting ceremony for Continental (Interview, Wen, 21/02/2012). As discussed in the case of Wisdom Property, government officials' attendance at the opening press conference and the ribbon-cutting ceremony was rare in China, and their attendance would be taken by the public, business, and official communities, to indicate the project was supported by government. This participation would simultaneously indicate to contractors and potential purchasers that it would be less risky for them to be involved in the project or to purchase units.

However, unlike the situation in the Leisure Garden project, this close relationship with a leading government official did not lead to a profitable project or a smooth development process. Wen stated that the first stage of Continental was very popular in the market (Interview, Wen, 21/02/2012). However, the first stage of Continental did not bring Kong much profit. When interviewed, Meng mentioned that Kong's lack of legal and management awareness led to him being cheated by Chen in the first stage of Continental. Meng recalled:

Kong almost had no control of the project in the first stage: he agreed with Chen's proposal that Chen was in charge of all construction, sales, and general daily management of the project. The only management staff from East Property involved was an accountant who had just graduated from university without any practical experience. In other words, all the sales revenue was owned and controlled by Chen (Interview, Meng, 29/02/2012).

Meng further stated that the sales revenue was held by Chen personally, as he put all the sales revenue into his personal account instead of the company account (Interview, Meng, 05/03/2012). However, it seems that Kong was not sensitive to the tricks played by Chen. Wen mentioned that Kong did not realise he was being cheated by Chen at the beginning of the Continental project. Wen stated that Kong only started to feel suspicious about Chen after the completion of the first stage of Continental when Chen overcharged the construction costs of the showroom for the first stage. Wen recalled:

Initially Kong would like me to build the showroom and I quoted a price of RMB 400,000 for the construction work to Kong. This was a very reasonable price compared to the market price of RMB 850,000. However, Chen said the maximum they would pay for the construction was RMB 150,000, which in my mind would be insufficient to cover my costs. So I decided not to be involved in constructing the showroom. Chen then sought a construction company himself. On completion of the first stage of Continental, Kong told me that Chen said he actually paid RMB 950,000 to the construction company (Interview, Wen, 21/02/2012).

Wen implied that from then on, Kong understood Chen's true aim was to obtain as much money as possible from this project, instead of collaborating with Kong. Meng was clearly of the view that Chen aimed to profit himself rather than the partnership. Meng also mentioned that Chen did not maintain a good relationship with the construction company which built the first stage of the Continental. Meng recalled:

Chen did not pay the construction company on time. He was also impolite to the manager of the construction company. Chen felt it was his right to owe money to the construction company. Therefore, five days after the completion of the first stage of Continental, the construction company sued the partnership of Kong and Chen for construction payment of a total of RMB 10 million (US\$1.6 million) (Interview, Meng, 05/03/2012).

Meng explained that although he tried to assist Kong in the lawsuit, the court decision was *su song bao quan*, "property preservation", which meant the creditor could attach the debtor's property for the benefit of the creditor (Interview, Meng, 05/03/2012). Meng recalled:

As part of the funds for the first stage of Continental was a loan from a local bank, the bank froze the collateral attached to the loan for three months. However, as Kong and Chen did not obtain sufficient funds during these three months, the bank then froze all East Property's assets (Interview, Meng, 05/03/2012).

Although Kong tried the same approach he had used before, the outcome was different to that in the case of Leisure Garden, where a close relationship with government officials made it easy to obtain scarce resources and improve the firm's performance. In the case of Continental, Kong also maintained a close relationship with the Vice City Mayor through his cousin, Chen. However, East Property's performance was not improved by this close relationship. Trusting others can reduce transaction costs for entrepreneurs and this had allowed Kong to operate without a strong company framework in his previous projects. In this case, however, Kong's limited managerial

abilities and the company's lack of corporate governance made it possible for Chen to take control of the project and seize the profits.

This meant that lack of funds became a barrier for Kong's development of the second and third stages of Continental, because the profit he expected from Stage One did not come to him. In response to this financial barrier, Kong firstly tried to break the partnership with Chen, because he realised that Chen would not be a business partner that he could trust and collaborate with. Meng mentioned that, at the beginning of the second stage, neither Kong nor Chen had sufficient funds to invest, so Kong asked Chen to leave the Continental project and stop their partnership. Chen agreed to stop the partnership. However, Kong's lack of legal awareness left Chen with the opportunity to involve Kong in a second lawsuit. Meng stated that, in 2009, Chen and Kong had an agreement detailing Chen's willingness to stop the partnership in the Continental project. According to that agreement, Chen could withdraw RMB 5 million (US\$802,381) from the partnership. Chen would then have no relationship with any future property-development projects of East Property, specially the second and third stages of Continental (Interview, Meng, 05/03/2012).

However, Chen's leaving the project did not officially terminate his collaboration with Kong. In fact, Kong signed the agreement then returned it to Chen without Chen's signature, which meant that the agreement was only signed by Kong (Interview, Meng, 29/02/2012). It seemed that Kong thought that the agreement would have the effect of stopping Chen from claiming future benefits from Continental, but this agreement actually resulted in the lawsuit when Kong finished the third stage of Continental, which will be addressed later in this chapter. This again showed that Kong's managerial abilities did not include attention to detail. As an entrepreneur, he had good ideas but poor implementation was affecting the business operation and performance of the company.

As mentioned earlier, Kong was responsible for the remaining stages of Continental after Chen left the partnership in 2009. The major barrier he faced then was the financial barrier, as he did not have enough personal savings and could not obtain bank loans, because the banks did not see East as a reputable enterprise in the way, for instance, that Wisdom Property was and in any case the banks were reluctant to lend to private

enterprises. Kong's solution to this financial barrier was to raise money from informal channels, such as private lending (Interview, Kong, 14/07/2011; Interview, Wen, 21/02/2012; Interviews, Meng, 05/03/2012). Although Wen and Meng's explanations stressed the problem this created, Kong's explanation showed that he did not take finance seriously as a business problem. Kong stated:

Funding was not a big deal. It was very easy to borrow from my friends, or we could form another partnership to develop projects. Instead, the only difficulty was how to obtain land for future property-development projects (Interview, Kong, 14/07/2011).

However, both Wen and Meng stated that Kong had no alternative but to obtain funds through private lending at the high prevailing interest rate of 15 percent (Interview, Wen, 21/02/2012; Interview, Meng, 05/03/2012). Private borrowing at such a high interest rate then added financial pressure and increased the total costs of the project. Although the financial barrier was not overcome at a low cost, it was at least resolved through private lending, which could keep the operation of the second and third stages of Continental moving forward.

Overcoming financial barriers through this sort of informal financial mechanism seems to be popular in China. Tsai (2002) conducted research into China's world of informal finance through surveys of microentrepreneurs in Fujian, Zhejiang, and Henan. He conducted interviews with government officials, and gathered relevant documents, including finance arrangements in private enterprise. As a result, Tsai (2002) identifies five major factors driving private entrepreneurs to seek finance through informal financing mechanisms. One of the major factors is that the banking system retains an institutional bias towards lending to state units. Therefore, Tsai (2002, p. 36) argues it is not surprising that entrepreneurs have created non-governmental financing mechanisms and institutions, although some of these are illegal. In fact, the vast majority of private entrepreneurs in China rely on the so-called "curb market", which includes all the financial practices and institutions lying beyond the state banking system in China.

However, the financial barrier was not the only barrier confronted by Kong and the resolution of financial barrier did not simultaneously resolve other barriers. As mentioned earlier in other cases, China's real estate market is strongly affected by government property policies. In the period of Kong's operation as a property developer

so far mentioned, China's real estate market had boomed and property prices soared. In 2010, however, the Chinese government implemented a series of policies aimed at making housing prices more affordable. This created a series of new barriers for developers including East Property.

Government policies to cool China's real estate boom at this time included pushing up interest rates, setting limits on the amount of bank loans, and limiting the number of mortgages for each individual borrower. In addition to these property policies enacted by the Central Government, local and provincial governments took further measures to reduce housing costs. These policies and their impacts on China's real estate market have been reported extensively in both Chinese and international media (Bradsher, 2011). The consensual opinion was that the number of property-sale deals decreased, reducing the sales revenue and therefore the profit of property-development enterprises.

In terms of the results of these government policies, the impacts were less obvious on the housing prices than on the number of property-sale deals, which fell significantly. Although the objective was to reduce the housing price and improve the affordability of housing, government and private price indexes show there was little change in the housing price. For example, according to the *Report on 2011 Land Prices of 100 Major Chinese Cities* conducted by private China Index Academy, in 2011, although the average housing price of 100 major cities had fallen by 11.5 percent compared to 2010, there was an increase in the housing price in some cities (China Index Academy, 2012, p. 2). In this report, these 100 major cities were classified into two groups: one was 44 cities which carried out "home-purchasing restrictions"; and the other group were 56 cities without the restrictions. The report found that the housing price in these 56 cities without home-purchasing restrictions had increased by 4.5 percent in 2011. So the restructure policies actually increased prices. However, the increase in housing prices did not necessarily bring property developers much profit, and in part this was because the numbers of sales dropped significantly in 2011. In *Report on Number of Deals on Residential Units in Chinese Major Cities 2011*, in 2011, the number of deals in China's first-tier cities, such as Beijing and Shanghai, had decreased by 19.49 percent and a decrease of 18.01 percent in the second-tier cities (China Index Academy, 2011, p. 3). Local City was one of the cities where average housing price had increased significantly in 2011 and where the number of real estate deals fell dramatically.

One shortcoming of relying on these data may be the reliability of the data themselves. Data such as real estate prices is extremely difficult to collect reliably in China because of the ambiguity in definition and calculation methods at the local level. This is a matter of public interest, and in 2010 it attracted media attention, exemplified in the leading newspaper, *Southern Weekend's* reports about the reliability of real estate prices in China (Wang & Mei, 2010). This article with the title "Who decides the real estate price in China?" noted that property developers manipulated data when reporting and there was also a time lag when reporting data. In addition, the classification used for reporting differed among regions. Wang and Mei (2010) report that different cities calculated residential housing prices using different methods making comparison very difficult. For instance, some cities include the price of residential houses for low-and-medium wage earners when calculating residential housing prices, while other cities did not. This difference in calculation certainly affects the reliability and comparability of statistic data.

The irony of policies designed to reduce costs resulting in fewer sales rather than lower costs show how difficult it is for government policies to succeed in China's real estate market. Such policies do, however, create barriers for property developers. In particular, East Property's development was influenced by government policies of North City. When developing the second stage of Continental, Kong did not receive support from North City government. By 2011, when Kong started the second stage of Continental, the Mayor of North City had changed. Wen mentioned that the change of Mayor would simultaneously mean a change in local policies and Kong was seriously affected by the policy change. Wen stated:

The new Mayor initiated quite a few property-development projects in North City. He advocated the renovation of existing commercial units in the CBD of North City as well as the Old Village Renovation Project. Many developers from more developed areas in China, such as Zhejiang Province, came to North City seeking property-development opportunities. These property-development companies were more advanced in design and experience than East Property. Thus, the market supply increased and Kong's advantages in North City disappeared (Interview, Wen, 21/02/2012).

Although Kong did not have the advantages of these experienced property-development companies, the second and third stages of Continental were still being constructed and then sold. As mentioned earlier, East Property did not have a formal company structure:

they did not have separate departments or staff being responsible for specific issues and this contributed to the legal issues Kong was involved in later in this project. However, Meng mentioned that Kong was “smart” in terms of his sales concept, although he also had problems in managing the company in a structured way (Interview, Meng, 29/02/2012). Kong’s sales approach relied heavily on his personal contacts. Kong’s choice of a personal rather than a professional approach to sales is an interesting internal issue, produced by an external circumstance. Meng stated that Kong insisted on using his own staff in the sales of units. This may be the lesson Kong learned from Leisure Garden, where the sales agent was able to take possession of a large proportion of the sales revenue. In 2011, at the time of the second stage of Continental, Kong only had two employees whom he would trust in selling the residential units: his driver and his office administrator. These individuals were both personally close to Kong and important staff members of the East Property. Meng mentioned that Kong established a reward mechanism aimed at motivating the driver and office administrator to increase sales: they would receive a commission from each unit they sold (Interview, Meng, 29/02/2012). However, because of the lack of details in implementing the reward system, this further weakened the internal management of East Property and led to the issue of distribution of commission.

While this personalised approach to sales had the advantages of using people Kong trusted, it had an obvious disadvantage. For example, this personalised approach did not specify the individual percentage of commission between the office administrator and the driver. Also neither of these individuals had sales or marketing experience. Meng recalled that the driver and the office administrator had very different attitudes towards the sales of the second and third stages of Continental (Interview, Meng, 29/02/2012). The office administrator was very proactive in this reward mechanism, so she insisted on signing a contract with Kong so that she could be responsible for the sales of the second stage of Continental. By contrast with the office administrator, Meng recalled that the driver was afraid that signing a contract with Kong would result in legal issues, so the driver did not sign. However, the driver was still involved in selling the second and third stages of Continental. In order to boost the sales, the office administrator personally paid for advertisements in local newspapers and other media, as East Property did not even have funds to advertise the project. Meng noted that all the sales

contracts with consumers were signed by the office administrator, although some of the sales were actually made by the driver. When all sales were completed, the office administrator claimed the commission from sales with a total of RMB 1 million (US\$160,476). However, when Kong realised that all sales contracts were signed by the office administrator, he refused to pay the commission to her. Meng said:

In Kong's mind, some sales were made by the driver, so the driver should receive part of the commission. Therefore, Kong suggested to the office administrator that she and the driver share the commission equally. This suggestion was refused by the office administrator, because she argued that the contract with East Property was signed by her, which stated that she would be responsible for the sales of the second stage of Continental. The office administrator said, at most, the driver was an employee employed by her. So the office administrator suggested that she would share 70 percent of the commission and the driver would receive 30 percent (Interview, Meng, 29/02/2012).

In Meng's view, the office administrator's suggestion of sharing of a 70 percent : 30 percent basis was very reasonable. However, Kong still insisted that the office administrator and the driver should share the commission equally. The office administrator would not agree with Kong's decision and in 2011, she sued Kong for delaying the commission payment to her. Meng mentioned that he told Kong there would be no hope of his winning the lawsuit, as all the contracts, including the one with East Property and other contracts with consumers, were signed by the office administrator. Even if Kong argued that some of the sales were made by the driver, he did not have sufficient evidence to support the argument. Therefore, Meng recommended that Kong agree with the office administrator's suggestion, which in Meng's mind would be the best solution to the issue. However, in Meng's words, Kong's response to his recommendation was "irrational and ridiculous" (Interview, Meng, 29/02/2012). Meng recalled:

Although I have analysed the possible results for Kong and explained the reason why there would be little hope to win the lawsuit, he said to me "if you cannot win the lawsuit, I would go for other lawyers" (Interview, Meng, 29/02/2012).

Meng mentioned that, in late 2011, the court made the decision that all the commission should belong to the office administrator (Interview, Meng, 29/02/2012).

This again was the result of the lack of a professional management structure for resolving problems for the enterprise. This situation was an obvious contrast to the

second case of this research, Wisdom Property, which had a modern organised company structure suitable for operating in a market economy. Kong's obstinacy in the distribution of commission also contributed to this lawsuit. In view of this organisational weakness and its consequences, Meng concluded that Kong's main task in ensuring the survival of the enterprise would not be obtaining land, but improving his legal awareness and management knowledge (Interview, Meng, 05/03/2012).

In addition to the legal issue regarding sales of the second and third stages of Continental project, these two stages met other problems. They affected the reputation of East Property and probably made it less competitive compared to those property developers with companies organised in a modern business-like way.

The lack of professional approach to public, customer, and media relations became obvious in 2012 when *North City News* reported that Continental project cheated consumers:

Consumers living in the third stage of Continental project mentioned that the completion of the third stage was delayed by two months. According to the sales contract, if the settlement date was delayed by more than 30 days, East Property should pay consumers a breach of contract damage at 0.2 percent of the deposit paid by the consumers. However, until now, consumers did not receive any breach of contract damages from East Property. In addition, consumers also stated that there was no internet, gas, or TV connections in the third stage of Continental (*North City News*, 11/09/2012).

As with the previous lawsuit, this case may also have been caused by lack of a professional management structure in the East Property. Without sufficient management staff, Kong could not attend to every detail in the project. By then, East Property transited from a highly reputable property-development enterprise in North City to one that was the subject of many complaints by consumers.

East Property's lack of a business-oriented organisational structure meant that legal difficulties were persistent. The lawsuits Kong was involved in simply did not come to an end. In addition to the lawsuits with Kong's former office administrator and the consumers in the third stage of Continental project, Kong was involved in another lawsuit with his former business partner, Chen. In 2011, on completion of the third stage of Continental, Chen sued Kong claiming part of the profit generated from the second and third stages of Continental. As mentioned earlier, when Chen agreed to

leave Continental, the contract was only signed by Kong but not Chen. Meng noted that Chen denied he and Kong had an agreement dating his departure from Continental. As Kong did not even have a copy of the agreement or other evidence, it would be very difficult to prove that the partnership had been terminated (Interview, Meng, 29/02/2012).

Meng's view was that Chen believed that Kong had made a huge profit, around RMB 60 million (US\$9.6 million) from the remaining two stages of Continental. In fact, because the sale price was available to the general public and Chen was familiar with the general construction costs, it would be very easy for him to estimate the profit Kong could obtain from the project. So Meng's view, that even if Kong wanted to hide any profit, it would be very easy for persons such as Chen to figure out (Interview, Meng, 05/03/2012), is probably correct. In addition, there was an issue of increasing housing prices. Meng said the land price had increased from RMB 700,000/mu (US\$112,333/mu) in 2009 to around RMB 1.4 million/mu (US\$224,666/mu) in 2011. To Kong, this meant the land value had increased dramatically, which indicated the potential to generate more profit. However, from Chen's perspective, he might miss a great opportunity to earn a profit. Chen's argument was that Kong developed the second and third stages of Continental without any notice to him as a business partner, and Chen claimed that he would be entitled to half the profit, or RMB 30 million (US\$4.8 million). In order to assist Kong in this lawsuit, Meng suggested that Kong could provide evidence to show that Chen had received a profit from the first stage of Continental. By providing this evidence, Kong may need to pay less to Chen. However, as mentioned earlier, the only management staff from East Property who participated in the first stage of Continental was an accountant. East Property did not have a complete set of financial reports, which left Kong with little evidence to prove anything. At the time of fieldwork for this research, the lawsuit was still in progress and awaiting a court decision. However, when interviewed, Meng claimed that it would be very difficult for Kong to win the lawsuit, which meant that he needed to pay some money to Chen (Interview, Meng, 05/03/2012). Paying Chen may be very difficult for Kong, as he did not have enough funds available.

This again demonstrates that lack of professional management structure was a barrier to East Property. At the time of the second field trip for this research in March 2012, the lawsuit was still awaiting a court decision and the amount of money that Kong would

have to pay Chen was still unclear. Therefore, whether and how Kong would overcome this barrier may be difficult to be addressed in this research. It seems that if Kong would need to pay a large amount to Chen, he may be in trouble as he did not have sufficient funds. In terms of whether Kong would be able to overcome this barrier, Meng and Wen had different ideas. In Meng's opinion, Kong had to pay some money to Chen but he could not afford to pay, and East Property would face the risk of being closed down. This was especially the case as China's property-development industry was being brought under tighter government control. In particular, a loss of reputation with government officials might mean that Kong would not be able to obtain any loans from any banks (Interview, Meng, 29/02/2012). Meng also indicated the main barrier restricting East Property's growth was Kong's lack of legal and managerial awareness. Meng's view was that if Kong would continue managing the company as he did before, the company would definitely be in great trouble (Interview, Meng, 29/02/2012).

However, Wen had a completely different opinion from Meng's. Wen believed conducting other property-development projects would increase Kong's ability in overcoming the barriers. Wen reported that Kong still had another two pieces of land on which he intended to construct residential units: one was in Success Village, a village next to Childer Village, and the other was part of Childer Village's renovation project. It should be noted that both projects are located in Local City rather than North City, where Chen's family are politically influential. In Wen's view, therefore, it would be easy for East Property to develop new projects to survive, and overcome the financial barrier. This would only be possible, however, by going back to his original development locality in Childer Village where Kong could obtain access to land because he still maintained personal networks with the new Village Mayor.

Kong and Wen shared the view that access to land was the primary barrier for property-development businesses and that it was best overcome by collaboration with government officials. If this was no longer possible in North City, a move back to Local City should ensure the company's survival. Wen stated that land would be the most important resource for property developers, and this was especially the case for private property developers in China where obtaining land was difficult (Interview, Wen, 21/02/2012). This claim was also supported by Kong. When interviewed, Kong mentioned that the financial barrier would be an easier issue, and that the difficulty of

obtaining land would be the biggest barrier faced by most private property developers like him. He said that, usually the land with good locations and higher potential profitability would be obtained by “people with a strong political background” (Interview, Kong, 14/07/2011). Kong used the following example to illustrate his argument:

One piece of land located in the CBD of Local City was obtained by a businessman whose uncle was one of the top government officials in Beijing. When this businessman came to Local City to select land, the Governor of Local Province and the Mayor of Local City accompanied him for the whole duration he was in Local City. Unsurprisingly, this businessman easily obtained the piece of land. It would be very easy to understand the reason why the Governor of Local Province and the Mayor of Local City did this: they hoped that the businessman’s uncle would assist them in promotion and also they wanted to gain more support from his uncle (Interview, Kong, 14/07/2011).

Therefore, in order to overcome the land-access barrier, Kong mentioned that he had to “take small losses for the big gain” (Interview, Kong, 14/07/2011). This implies that he had to bribe the government officials in order to smooth the process. This seems likely to have been the case when he had previously obtained land in another East Property project – Success Village. The land in Success Village was around 70 mu in size (46,620 sq m). As described in the case of Wisdom’ acquisition of converted land, this type of acquisition usually took a period of time. The negotiation process of the land-use rights started in around 2004, before the privatisation of Childer Village Property. Han mentioned that they used Childer Village Property during the negotiation process, but in fact, Han tried to obtain the land for Kong, as at that time they had known about the government policy on privatising village-owned enterprises (Interview, Han, 06/03/2012). Although access to the land was negotiated and partially obtained before privatising Childer Village Property, and it should be treated as a village-owned asset, Han and Kong did not report this acquisition in financial reports (Interview, Han, 06/03/2012). This was probably because, if the land in Success Village was recorded in Childer Village Property’s account, Kong would need to pay more to Childer Village when privatising Childer Village Property. From Kong’s point of view, this was an effective way to relieve his financial stress, however, this was at Childer Village’s cost.

Kong mentioned that the sale price agreed with Success Village was RMB 96,000/mu (US\$15,389/mu) and, by 2011, East Property had already paid Success Village the full

amount and an additional RMB 3 million (US\$480,931) was paid to the local Bureau of Land and Resources (Interview, Kong, 14/07/2011). When interviewed, Kong mentioned that although the land had not yet gone through the public auction process, it would be considered “a piece of land with imperfection” because East Property had paid for the land in full. This meant that even if other property developers would like to bid for the land, they would not meet the compulsory requirements. This is because the Bureau of Land and Resources would set the bidding requirements specifically to advantage Kong and they may include requirements such as developers needing to pay compensation of RMB 96,000/mu (US\$15,389/mu) to Success Village. Under this kind of requirement, the only eligible developer at the public auction would be East Property. Although the Chinese government promoted public auctions and bidding for land, in fact, local government may still have important decision rights which could impact the outcomes. In this case, categorising the land as “a piece of land with imperfection” may enable Kong to avoid competition with other property developers. So, getting a favourable official description for land he wished to develop may be a solution for Kong to overcome the land-access barrier.

Another reason why Wen believed that Kong would overcome the financial barrier was that Wen estimated that this land in Success Village would bring Kong significant profit. This piece of land in Success Village was not only located next to Childer Village, it was also in the Local City government’s plan of building a central office area. Wen said:

If the office area would be built according to the government plan, Kong would not need to worry about the market, and this project would bring him significant profit given the increasing housing price in Local City (Interview, Wen, 21/02/2012).

At the time when interviews were conducted for this research, Kong had not started any property-development project on this land. However, when interviewed, Kong mentioned that Success Village had the intention to collaborate with him in developing this land (Interview, Kong, 14/07/2011). This may be a favourable intention, as collaborating with local government may bring Kong some preferential policies when developing the project.

The other project Kong was involved in at the time of the fieldwork for this research was another piece of land in Childer Village. This land was occupied by villagers and

had houses attached to it. This project was part of the Childer Village Renovation Project and Childer Village planned to build residential buildings on it. They seemed likely, however, to ask for Kong's co-operation in the project. Wen and Han explained that this project was managed by Company Fenner, a company established and owned by the new Village Mayor's wife (Interview, Wen, 21/02/2012; Interview, Han 06/03/2012). Wen mentioned that initially Company Fenner wanted to develop this project on its own. However, villagers refused to vacate the land, as they believed the compensation was too low. This was especially the case for one household whose house was in a vital location on this land. Kong had previously succeeded in overcoming just this sort of opposition from Childer Village in the Harmony Garden Project.

Wen's explanation for the willingness to collaborate with Kong is that Company Fenner failed to persuade these villagers to vacate the land, so they did not start the project on time. In order to ameliorate the risk, Company Fenner began to seek business partners in developing the project. Wen pointed out that Kong was actually considered to be the trusted follower of Han, the former Mayor of Childer Village. In Wen's view, however, the new Village Mayor must have had difficulties in finding business partners, otherwise the new village Mayor would not have collaborated with Kong, the trusted follower of his enemy (Interview, Wen, 21/02/2012). Wen mentioned another reason why the new village Mayor would collaborate with Kong. Compared to Company Fenner, which did not have any property-development projects or any relevant knowledge in conducting property-management projects, East Property was more advanced and experienced (Interview, Wen, 21/02/2012). When interviewed, Kong did not mention the exact size of this land. However, Wen stated that Kong obtained a construction area of 120,000 square metres at the price of RMB 2000/sq m (US\$320/sq m) (Interview, Wen, 21/02/2012). This is vital for the development of East Property, because it resolved their difficulty in obtaining land. This is significant for the survival and growth of East Property, because it was really difficult for East Property to obtain land, especially when competing with large SOEs. However, in this case, once East Property had land, they could conduct property-development projects, which had the potential to generate profits. As a result, East Property could survive and develop.

At the time of this research, East Property was still seeking ways to resolve the legal issues they were involved in. It was unclear whether East Property would have

sufficient funds to start these two projects. However, East Property was still operating and had not closed down as predicted by Meng.

6.8 Summary

This chapter presented the third case narrative, East Property. The narrative provided detailed illustration of key themes. Table 6.5 aims at categorising the actions taken by East Property according to thesis themes, such as personal development, networking, and trust and reputation, in a simplified form to facilitate clearer analysis.

Table 6.5 Summary of thematic analysis for East Property

Theme	Sub theme	Quote
Personal development	Accumulating market knowledge	Previous work experience
	Other	This position may bring him valuable opportunities Gaining knowledge about the property-development industry Further and more comprehensive insights into the property-development industry Became familiar with the property-development process
Networking	Personal network with Kong's superior	The relationship between Kong and Han Maintained good relationship with Han
	Personal network with government officials	Relationship with government officials Collaboration with the Director-General of Local City of Communications Maintaining a good relationship with government officials Personal connection with officials who had power in allocating scarce resources The <i>guanxi</i> with government officials Relationship between Kong and government officials in North City Collaboration with government officials
Trust and reputation		Reputation
	Other	Kong's sales approach heavily relied on his personal contacts
Product quality		One of the pioneers who started conducting property-development projects in North City
Others		Nepotism
		Another opportunity
		Strong Chinese characteristics
		Discounted land price and delayed payments
		Government policy on privatisation
		Delayed the payments to the construction company and collected prepayments from consumers
		Moved his business emphasis from Local City to North City
		Granted some favourable terms
		Private lending at a high interest rate of 15%
		The lack of professional management structure

Kong's work experience before the establishment of East Property provided him with knowledge of the property-development industry and the opportunity to work as General Manager of Childer Village Property.

The narrative of East Property indicates the importance of personal networks with superiors and government officials in obtaining key resources, such as land. When

managing Childer Village Property, Kong was able to overcome the land-access barrier by obtaining village-owned land at discounted prices. The financial barrier was overcome through prepayment from consumers and investment from Childer Village. The favourable terms in acquisition of land and funds received by Kong were largely related to Han, the Village Mayor. Two factors may contribute to the granting of favourable terms to Kong. First, being the Village Mayor, Han gave favourable terms to Childer Village Property to support the development of the village-owned enterprise. Second, Han received personal benefits from the profits generated by Childer Village.

It is worth noting that Kong's initial success in developing Oak Tree project in North City may be the result of a "frontier approach" and the networks with government officials was a key contributor to the success. Li and Matlay (2006, p. 253) claim, in their research into Chinese entrepreneurship and small business development, that the complexity of and the lack of stability in China's institutional environments may affect entrepreneurship in both positive and negative ways. Positively, it could provide opportunities for entrepreneurs to experiment and explore. Yang (2004), when investigating institutional roles and entrepreneurship in China, contributes a similar claim: under certain social and economic conditions, institutional structure could become the sources of entrepreneurship in China. In a changing environment, seeking solutions without pre-setting institutional designs may provide the highest possibility of success (DiMaggio, 2001; Fligstein, 2001; Yang, 2004). In Yang's view, entrepreneurs "take the initiative of identifying and manipulating institutional holes in non-equivalently distributed resources and combining the resources into profitable projects" (2004, p. 385). This kind of success, without strictly following the institutions, often requires initiative, courage, and imagination. Initiative, courage, and imagination were important for the success of China's private enterprises.

However, East Property's success in North City was short term. When Kong lost the network with government officials, he came across a number of problems. The problem of insufficient professional management became a more obvious barrier restricting the company's development. A similar phenomenon is noted in Yang's more general research on China's business environment. Yang (2004, p. 383) argues that institutional roles in transitional economies usually produce short-term returns compared to those in mature market economies. For entrepreneurs, Yang (2004, p. 383) mentions that these

opportunities emerging from the gap will soon become transient as competitors will soon bring similar products to the market.

In summary, the case of East Property confirmed the importance of work experience and maintaining good networks with government officials in obtaining key resources. It also indicates that the strategy of solely relying on personal networks with government officials could only work to a certain point. While this provided Kong with his opening to business success, it was evident that this success would not be sustainable without a stronger company structure and development of the entrepreneur's managerial skills. The next chapter discusses and interprets the case narratives.

Chapter 7 Discussion and analysis

7.1 Introduction

This chapter uses Scott and Bruce's (1987) phases of business growth framework to analyse the three case narratives and analyses the similarities and differences across the case enterprises in terms of the barriers they faced and the strategies adopted by the three private property-development enterprises in response to these barriers.¹⁰

The result of this analysis indicates that personal networks played a critical role in addressing some barriers. This finding is consistent with existing research on business networks, and adds to this literature by confirming that this is also the case in the private property-development industry in China, where the impact of business networks has not previously been very well researched. This research makes a further contribution in investigating situations where networking did not work in addressing the barriers. By using Scott and Bruce's (1987) time-sensitive business growth framework, this research explores the strategies used by the enterprises over time and allows comparison across the three enterprises. This research further finds that their business strategies change according to the different stages of business growth.

This chapter is organised as follows. Section 7.2 provides an overview of the barriers and strategies evident in the three case enterprises, as addressed in the previous three case narrative chapters. Section 7.3 restates the relevance and usefulness of Scott and Bruce's (1987) business growth model in analysing the case narratives. Sections 7.4 to 7.7 analyse the strategies of the three case enterprises by using Scott and Bruce's (1987) framework. Section 7.8 concludes this chapter by generalising the findings of this research.

7.2 Barriers and strategies of three case enterprises

¹⁰ The previous three chapters presented the case narratives with the within-case analysis. By doing this, these chapters provided analysis followed the narrative to establish the link between the case narratives and the key analytical points. The main purpose of this chapter is to make the cross-case analysis and identify the similarities and differences among the barriers met by the case enterprises and their responses.

In Chapter 2, four major potential barriers likely to be met by China's private property-development enterprises were identified from existing research literature. Focusing on the character of private property enterprises and on the nature of China's market transition, these were termed the regulatory, financial, land-access, and internal barriers. In the case narratives presented in Chapters 4 to 6, each of these four barriers was evident in the case enterprises and the basic mechanism for overcoming each of these barriers was seen to be personal networks. In particular, these networks involved an old friend, the trading of administrative power for money, and/or the gift of an interest in the business. In the following sections, the discussion details how the barriers were overcome by the three case enterprises, with an emphasis on highlighting the exact type of personal networks being used in addressing the particular barriers as they appeared in each of their property-development projects.

The first step is a brief comparative analysis of the case study enterprises to identify similarities and differences. This is tabulated in Table 7.1.¹¹

¹¹ Table 7.1 presents the details of the each case enterprise to provide an overview of the key facts. This chapter then offers an investigation of the barriers met by each enterprise and their responses separately. Tables 7.2 to 7.4 give a more visual appeal of the enterprises' responses.

Table 7.1 Company information of case enterprises

	Yang's Property	Wisdom Property	East Property
Year of establishment	Formally established in 2003 after a previous property-development enterprise had been stolen by a business partner.	1993	Formally established in 2005 after the privatisation from a former village-owned enterprise
Number of projects by 2011	5	13 projects, including three being built	4 projects were developed after privatisation
Number of employees	Around 30 full-time employees.	Around 110 full-time employees.	Only four full-time employees and around 10 part-time employees when conducting projects.
Annual revenue of the past five years	Variable. The annual revenue depended on whether there was a project.	Around RMB 300,000,000 to RMB 450,000,000 (US\$48,986,789 to US\$73,480,184) per annum.	Variable. The annual revenue depended on whether there was a project.

As presented in Table 7.1, Wisdom Property was the most developed enterprise among the three, with 13 projects and stable annual revenue. Yang's Property and East Property were similar in the number of projects conducted by 2011 and in annual revenue. However, Yang's Property had a more established organisational structure than East Property. It is the argument of this thesis that these internal structural factors, such as the management skills and organisational structure, were the determinants of the business growth when the enterprises entered their later growth stages, such as the growth and expansion stages.

7.2.1 Yang's Property

As summarised in Table 7.2, the three major barriers Yang's Property encountered during its development were the regulatory, land-access, and financial barriers. During interviews for this research, the enterprise owner, Yang, and other informants did not indicate that internal management was a barrier. By contrast, they did identify specific instances in which regulation, land access and finance arose as factors that impeded the development of the enterprise.

Table 7.2 Barriers and strategies of Yang's Property

Project	Regulatory	Land-access	Financial	Internal
1997: Dragon Property	Personal network with government official.			Internal management was not recognised as a barrier by the informants of Yang's Property. However, through observation, this research found Yang's Property had a centralised organisational structure. Yang, as the enterprise owner, is the decision-maker. In addition, Yang's Property had an accounting department.
1 TIT's old office building		Collaboration with a large SOE, TIT, which had existing land, through Yang's elder brother.	Yang's elder brother, the General Manager of the SOE, allowed the postponement of the land-use right payment.	
2 Century's old residential building B100		The elder brother's personal network with the General Director of Century Group, the government business, and Director-General of the Construction Committee. Both of them were given financial benefits. Former residents refused to leave: 1. Personal network with Secretary of the SOE to impose pressure on residents; 2. Yang offered lower housing prices to former residents who wanted to purchase the new units.	1. Advanced payments from consumers; 2. Delayed payments to builder (trade credits); 3. Obtained bank loans (small amount).	
3 Landscape		The elder brother's network with the Village Mayor. In 2008, villagers refused to leave: 1. Personal network with the Commander of the Local City Police Squad to impose pressure; 2. Gangsters; 3. Increased compensation standards for villagers.	1. Did not start project immediately after obtaining the land; 2. Profit obtained from previous property-development projects; 3. Profit from building a road for the nearby district, Lancun District; 4. Increased plot ratio to generate more profits.	
4 Peace		The elder brother helped to obtain land where one of the SOE's subsidiaries was located. A relative of government official interrupted and competed for land. Yang gave financial benefits to the relative so that he stopped competing with Yang's Property in the auction for land.	The elder brother's personal network with another property-development enterprise – this nominal enterprise paid for the land expense of RMB 6 million– Yang's Property was the real company in charge.	
5 Duke Villa		Personal network with the Commander of Local City Police Squad. The Commander's personal network with the Deputy District Mayor of Lancun District. Villagers refused to leave: 1. Pressure from the police and gangsters; 2. Increased compensation for villagers.	1. Manipulated bank loans of RMB 400,000 by having Yang's relatives as mendacious buyers; 2. Borrowed from friends and relatives totalling RMB 40 million.	

In the establishment in 1997 of Dragon Property, the predecessor of Yang's Property, only one barrier was encountered and this was to do with regulations relating to setting up the company. It was overcome by making a key regulatory official's son a major shareholder. In Project 1, land access and finance were the two major barriers the enterprise experienced. Yang's elder brother, Guang Yang, the General Manager of TIT, allowed Yang to pay for the land when he sold the commercial units. In Project 2, the land where the old residential building B100 was located was owned by Century Group, an SOE. According to city planning, this land should be reconstructed as a public park. Guang Yang saw how this could be an opportunity for Yang. Therefore, Guang Yang negotiated with the General Director of Century Group about a potential win-win solution to both Century Group and Yang. Guang Yang then used his networks with government officials to change the municipal plan. This change allowed Century Group to build another workshop on part of the land, while the other part was transferred to Yang for property development.

In the following projects, Yang met difficulties in obtaining land. Personal networks were crucial for Yang's Property when dealing with this barrier. A personal network with the Director-General of the Construction Committee of Local City contributed to the elimination of the regulatory barrier when establishing Yang's Property and its predecessor. Throughout the five property-development projects conducted by Yang's Property, the enterprise owner's personal network with this elder brother, as well as his elder brother's personal network with government businesses and government officials, were significant in addressing the land-access barrier.

The one exception to this primary role of networks was in addressing the land-access barrier which occurred when acquiring land occupied by former residents or former villagers. In this case, personal networks were not effective because it was impossible to have personal networks with all the residents or villagers. The networks among members of the elite that Yang had previously used had no power among the villagers. In addition, the personal network with one government official or Village Mayor could not directly resolve the barrier. As detailed in the case narrative in Chapter 4, in the second project of Yang's Property, when the former residents refused to leave their units, Yang took the "carrot and stick" strategy, imposing pressure on these former residents through his personal network with the Secretary of Century Group as

well as offering lower housing prices if they supported his acquisition of land. In Yang's later projects when acquiring converted land, he also used the "carrot and stick" approach, combining the use of Local City Police Squad, gangsters, and increased compensation.

When dealing with financial barriers, Yang's Property mainly used three methods: collecting advanced payments from customers; delaying payment to the owner of land and trade partners; and obtaining bank loans. Personal networks again played a very important role, because it was the enterprise owner's elder brother who permitted the postponement of the land-use right payment in Project 1. As presented in Table 7.2, other major sources of finance for Yang's Property were retained profits from previous property-development projects and personal borrowing. As mentioned in the case narrative, although Yang's Property gradually built up its credibility in Local City's property-development industry, it was still difficult for it to obtain bank loans. In this respect, the experience of Yang's Property is consistent with China's private enterprises' general difficulty in obtaining bank loans (Brandt & Li, 2003; Cousin, 2011; Irwin & Scott, 2010; Poncet et al., 2010; Wu et al., 2008). In this situation, Yang was forced to rely on networks that drew him into some corrupt behaviour and gangsterism.

7.2.2 *Wisdom Property*

Table 7.3 presents the barriers faced by Wisdom Property and how these barriers were overcome. Personal networks played a less significant role in the development of Wisdom Property compared to Yang's Property. Wisdom Property had a more developed modern organisational structure and it developed its own rules for dealing with different barriers.

Table 7.3 Barriers and strategies of Wisdom Property

Project	Regulatory	Land-access	Financial	Internal
Establishing Wisdom Property		Negotiated with local Forestry Administration and offered higher prices than other property developers with immediate payment of RMB 1 million. This created financial stress.	Personal network with previous clients. Clients invested in the new company. Financial stress created by the immediate land payment was overcome through a new sales strategy. Wisdom Property received prepayments from the Local Administration of Taxation, which was their major customer.	Unspecific division of work among different departments. 1. Internally and externally sourced training; 2. Deputy General Manager updated company documents to specify the division of work among departments and procedures when dealing with issues, such as residents' maintenance requests.
City Garden 2004		Competed with two large SOEs in the public auction process. Three main management staff attended the auction: more flexible and prompt than those SOEs. Dispute with Village B, the initial land owner about the land-use rights of a small river on the piece of land: 1. Paid cash amount of RMB 1 million to Village B; 2. Used Village B's construction team to generate more income for them.	Obtained bank loans for the first time by mortgage. Guang Yang helped to obtain the land certificate, as his friend was the Director General of Local Bureau of Land and Resources.	
Projects conducted from 2005 to when the interviews were conducted		Overcome land-access barrier through acquiring converted land. The project named Gold Garden starting 2005 is an example. Strategies include: 1. Started negotiation in 2000; 2. Compensating villagers; 3. Built 43 residential buildings for villagers; 4. Commercial units for villagers at lower rent; 5. Invited a famous department store so that villagers, being shareholders, can earn income from the project.	Split every project into different stages, started with the stage in best location but at the lowest prices.	

The only time Wisdom Property competed with large SOEs was when obtaining land for City Garden. However, their experience was that obtaining land through this method was not effective for private enterprises, as government had a preference for SOEs, and private enterprises were disadvantaged. After they realised this difficulty in obtaining land through public auction, where they had to compete with large SOEs, they gradually formed their own approach to acquiring converted land in an effort to by-pass government influence.

In terms of the financial barrier, the initial financial barrier when establishing Wisdom Property was overcome by receiving initial investment funds from the entrepreneurs' previous clients. This was partly based on personal networks, but it was also related to the reputation of the two entrepreneurs and the professional trust the investors placed in the entrepreneurs as a result of repeated interaction with them. When dealing with financial barriers, Wisdom Property had gradually formed their own strategy after realising the high expenses related to bank loans. Wisdom Property paid great attention to maintaining continuous cash flow for the company. Therefore, there was unanimity among the key management staff in Wisdom Property about the approach of splitting each property-development project into several stages and starting with the development of the best location at the lowest prices to create interest in the market and to establish cash flow for the development. They applied this approach to each property-development project and this maintained the company's cash flow. This approach enabled Wisdom to by-pass the financial institutions which might be expected to be the main source of finance for new business ventures in more developed market economies.

Unlike Yang's Property, Wisdom Property attached more importance to internal management and the Deputy General Manager, Wei, identified internal problems as one barrier that did limit the development of the company. In particular, Wei saw the unspecific work division as an internal management problem. Although one could argue that unspecific work division allows flexibility rather than having a highly structured organisation, in the case of Wisdom Property, Wei concluded the unspecific work division left the company with issues unresolved and had negative impacts on the enterprise. In order to overcome this barrier, Wisdom Property organised both internally and externally sourced training programs. The internally sourced training

program included induction programs for new employees explaining their work responsibilities and expectations, and ongoing training programs to address specific issues when observed by Wei. The externally sourced training was conducted by a management consulting firm, aiming to increase the general management skills of management personnel. Meanwhile, Wei issued and/or amended company documents to address new problems being identified on a regular basis. The purpose of these company documents was to clarify the responsibilities of each department so that they could cooperate with each other more effectively, and clarify the work procedures to reduce the turnover period in addressing high-impact issues, such as customers' maintenance requests.

In summary, Wisdom Property's strategies to overcome barriers were more sustainable than those of Yang's Property. This was because they did not rely solely on personal networks but also built professional networks based on trust in the enterprise. Furthermore, these networks went beyond the small circle of senior officials. They created a virtuous circle in which villagers came to them and sought collaboration in property development. This resolved the difficulty in obtaining land through public auctions where the enterprises were disadvantaged compared to large SOEs. In addition, their complete internal management system also ensured the company's business operation was rational rather than whimsical.

7.2.3 East Property

East Property was different from the first two case enterprises, as it was privatised from a village-owned enterprise in Local City. Table 7.4 separates the property-development projects being conducted before and after privatisation. East Property had a strong reliance on the entrepreneur's personal networks with government officials. As summarised in Table 7.4, prior to privatisation, the land-access and financial barriers were overcome through the entrepreneur's personal relationship with the Village Mayor. The Village Mayor exercised his power to permit delayed land payment and also provided funds to the company. In return, the Village Mayor himself received direct personal benefits from the entrepreneur in the form of cash.

Table 7.4 Barriers and strategies of East Property

Project		Regulatory	Land-access	Financial	Internal
Before privatisation	Residential Area One	Personal network with the Director-General of Local Bureau of Land and Resources.	Personal network with the Village Mayor to obtain village-owned land.		Very simple organisational structure. No proactive strategies were taken to address internal barriers.
	Residential Area Two		Personal network with the Village Mayor to obtain village-owned land.	Personal network with the Village Mayor to postpone payment. The Village Mayor authorised investment in the company to employ construction team.	
	Two residential buildings for Childer Village		Personal network with the Village Mayor to obtain village-owned land.	1. Personal network with the Village Mayor to postpone payment; and 2. Used customers' prepayments to pay land expenses.	
	Harmony Garden – first stage		Personal network with the Village Mayor to obtain village-owned land.	Personal network with the Village Mayor to obtain discounted land price and postpone land payment.	
After privatisation	Harmony Garden – second stage		Personal network with the Village Mayor to obtain village-owned land.	1. Personal network with the Village Mayor to postpone payment; and 2. Used customers' prepayments to pay land expenses.	
	Leisure Garden		Collaboration with Local City Bureau of Communication through personal network with the Director-General. The Bureau was the owner of land.	1. Invested the profits earned from the second stage of Harmony Garden to Leisure Garden project; 2. Delayed payments to construction company; and 3. Prepayments from customers.	
	Oak Tree		Personal network with an intermediary who had connection with government officials in a nearby city. East Property moved to a less-developed city.		
	Continental	1. Received favourable terms from local government due to the success of previous project; and 2. Personal network with the cousin of Vice Mayor.		Private lending through informal channel at the interest rate of 15%.	

This situation of benefiting from the personal network with the Village Mayor continued until East Property's first project after privatisation because the project was the second stage of an ongoing project. However, the circumstances changed, especially after the Village Mayor's resignation. The entrepreneur could no longer receive any favourable terms from Childer Village. Therefore, the entrepreneur decided to move to a less-developed city for better opportunities. This was not a proactive strategy to overcome barriers, but a frontier approach, which simply means moving to a new frontier and doing the same as before.

At the beginning, this strategy of moving to a less-developed city was successful in eliminating the land-access barrier. This was partly because the entrepreneur cooperated with the relative of a government official in the new location of North City. This again shows the impact of personal networks. However, success in North City was also because East Property's design and development concepts were indeed more advanced compared to other property-development enterprises in North City at that time. With the close personal network with the government official and the relatively advanced design concept, East Property was successful in the Oak Tree project.

The success of Oak Tree also brought the company another opportunity and facilitated the elimination of the land-access barrier in the following Continental project. The local government provided favourable terms and assisted East Property in obtaining bank loans, which overcame the financial barrier for the company. However, development relying heavily on personal networks with government officials was very fragile. East Property's advantages ended when there was a change of City Mayor of North City. With the entry of strong competitors from other more developed cities, the advantages of East Property gradually disappeared. Subsequently, the company met several serious problems in developing Continental project.

This was East Property's most recent property-development project. In it, the financial barrier became one of the major problems affecting the company. Personal networks with government officials assisted East Property overcome the financial barriers in the previous property-development projects. In the case of Continental project, this close personal relationship with government officials was discontinued, as the City Mayor was changed. East Property obtained funds through informal channels at a high

interest rate of 15 percent, which relieved the temporary financial stress but may have also increased the costs and financial burden in the long run.

It is worth noting that East Property experienced the most serious internal management barrier when compared to the other two case enterprises. The company had a simple organisational structure, with only four full-time employees. This organisational structure has the advantage of being flexible. However, as is evident from the case narrative in Chapter 6, East Property's simple organisational structure could not cope with the development of the enterprise. One example was having Kong's driver and office administrator as salespersons without clear HR or sales commission policies in place, and many tasks were undertaken by staff in a very random fashion. Because of the lack of management skills and the lack of a proper organisational structure to cope with the development of the enterprise, East Property was involved in three lawsuits during the time this research was conducted. East Property's response to the internal management barrier was very passive. Instead of seeking methods to resolve the internal management problems, they did not make any changes to the organisational structure or management approach and seemed to be hoping that somehow these problems would disappear by themselves.

7.3 Adopting Scott and Bruce's (1987) small business growth model in the analysis

Section 7.2 summarised the key information from the case narratives presented in Chapters 4 to 6, with an emphasis on the barriers the three case enterprises met and the strategies they used to overcome these barriers. Chapter 2 introduced Scott and Bruce's (1987) small business growth model as a useful framework to analyse the three case narratives. This research used Scott and Bruce (1987)'s model because of its time sensitivity, its definitions of small businesses, and its particular attention to the sources of crises at each stage, all resonate with the experience of the case enterprises revealed in the case narratives.

Scott and Bruce's (1987) small business growth model classifies business growth into five stages: inception, survival, growth, expansion, and maturity. This classification of the business growth will guide the analysis of the barriers and strategies taken by each case enterprise over their growth. It is worth noting that identifying the stages in the

model in the development of the three case enterprises was not straightforward. Scott and Bruce (1987, p. 51) point that “small businesses may not follow all the paths suggested and may in fact appear to be a hybrid of two or more stages”. During the period the research was conducted, the three case enterprises were still in their early growth stages and did not reach the stage of maturity, because they had very short company histories – the longest was 19 years. Nevertheless, the time sensitivity of Scott and Bruce’s (1987) framework is still useful in providing a framework for analysing the trend of strategies being used by the same enterprise at different time periods, and for comparing the strategies used by different enterprises at different stages to address the same barrier.

The following four sections analyse the strategies used by the three case enterprises in addressing the regulatory, land-access, financial, and internal barriers. These sections first compare the barriers experienced by the case enterprises to those derived from review of the research literature, which were discussed in Chapter 2. They also address the similarities and differences of the barriers the three case enterprises met.

7.4 Regulatory barrier

Chapter 2 argued that China’s private property developers were likely to face a regulatory barrier, because this industry is heavily influenced by government control and by policy changes at different levels of government (Haggard & Huang 2008; Hagigi & Sivakumar 2009; He et al., 2011; Tan & Litsschert 1994). The three case narratives revealed the existence of the regulatory barrier in each enterprise and at each stage of development. Table 7.5 summarises the regulatory barrier experienced by the three case enterprises and their strategies in overcoming them.

Table 7.5 Regulatory barriers experienced by three case enterprises and their strategies

Yang's Property's projects	Regulatory barrier and strategies	Wisdom Property's projects	Regulatory barrier and strategies	East Property's projects	Regulatory barrier and strategies
1997: Dragon Property	No legitimate licence. Personal network with government official.	Wisdom Architectural Design Company	No legitimate company because of lack of funds, so they could not conduct design jobs. Professional trust their previous clients had in them.	1. Residential Area One	Obtaining legal approval for this project. Personal network with the Director-General of Local Bureau of Land and Resources.
1. TIT's old office building	General regulatory barrier included lengthy application process and lack of transparency in government policies.	Establishing Wisdom Property		2. Residential Area Two	
2. Century's old residential building B100		Project in City B-2004	Mayor and the local Secretary of the Municipal Party Committee were replaced in City B. The project was stopped.	3. Two residential buildings for Childer Village	
3. Landscape	1. Personal relationships with government officials; and	City Garden 2004	General regulatory barrier is "unfair" tax system and the lack of transparency of tax system.	4. Harmony Garden – first stage	
4. Peace	2. Purchased construction materials from government bodies, which increased the cost of construction.	Projects conducted from 2005 to 2011	1. Keep good personal networks with staff in local Tax Office; and	5. Harmony Garden – second stage	
5. Duke Villa			2. Manipulated profits to a point that had been carefully calculated to reduce tax liabilities	6. Leisure Garden	
				7. Oak Tree	
				8. Continental	1. Received favourable terms from local government due to the success of previous project; 2. Personal relationship with the cousin of Vice Mayor.

The three case narratives revealed that the regulatory barrier is most obvious in the early stage of the three case enterprises, although this barrier is influential throughout the entire business growth of the three case enterprises. The stage of establishing the enterprise (the first project of three case enterprises in Table 7.5) accords with the inception and survival stages in Scott and Bruce's (1987) framework. At the inception and survival stages, all the case enterprises met regulatory barriers, including the difficulty in obtaining a legitimate licence and government approval and failure to meet government requirements. To overcome this barrier, Yang's Property and East Property used personal networks with key government officials, while Wisdom Property relied on the professional trust their previous clients held in them. In this example professional trust is clearly differentiated from personal trust, because the source of the trust the clients had in Jiao and Tang was the high standard of their design and management capabilities. Even in later growth stages of these three case enterprises, Yang and East Property relied heavily on using personal networks to address the regulatory barrier. For example, Yang's Property relied heavily on nepotism through his elder brother's help to obtain land and finance. East Property used the entrepreneur's close personal relationship with the Village Mayor to obtain village-owned land, as a strategy to overcome the land-access barrier.

At the simplest level, the case narratives add research on business behaviour in China by showing how personal networks and professional trust impact the actual operations of the businesses studied for this research. While this replicates conclusions in Western literature about the importance of these factors, a finding that emerges from the case narratives is that trust is not central only to capitalism but may be even more important in an emerging market economy. As noted in the literature review chapter (Chapter 2), in transition economies, especially in the early years of economic transition, enterprises may face barriers arising from the lack of well-established market institutions including the absence of a credit market (McMillan & Woodruff, 2002, p. 159). As McMillan and Woodruff's (2002) research on the central role of entrepreneurs in transitional economies notes, in the case of a lack of market supporting institutions, enterprises usually rely on the ongoing relationships among firms, which substitutes for the missing formal institutions. In both McMillan and Woodruff's (2002, p. 159) cases and cases in this research, trust played a significant

role in these ongoing relationships where enterprises would trust their consumers to pay the bills and the suppliers would deliver quality goods because they trusted in the prospect of future business opportunities. This was clearly evident in the details of the operations of the three private property-development enterprises presented in this research. It confirms that China's private property developers rely heavily on trust and prefer to work with people they know personally and trust (Kiong & Kee, 1998, p. 92).

A considerable literature has been devoted to describing the different types of personal networks which have been identified in the international research literature on business activity (Doeven-Eggens, De Fruyt, Jolijn Hendriks, Bosker & Van der Werf, 2008; Su & Littlefield, 2001; Su, Mitchell & Sirgy, 2007). In the case of China, this has focused on the concept of *guanxi* which is said by many researchers to be a fundamental cultural characteristic (Chang & Holt, 1991; Hwang, 1987; Park & Luo, 2001; Tan et al., 2009). One result is that existing research on Chinese enterprises has focused primarily on personal relationships to explain the operation of Chinese enterprises (Batjargal, 2007; Chang & Holt, 1991; Chen & Chen, 2004; Jacobs, 1979; Kiong & Kee, 1998; Park & Luo, 2001; Taormina & Gao, 2010). This begs a significant question: if the entire business operation of Chinese enterprises is about personal relationships and if *guanxi* is so embedded in Chinese culture, then why do some enterprises succeed while others fail? The analysis that Chinese enterprises are all about personal networks or *guanxi*, may achieve no more than putting a label on relationships, which equates to a very general description. Much of this sort of analysis is based on studies using aggregate data which do not reveal the actual details of how businesses operate. For this reason, it is not related directly to practice and therefore lacks explanatory power. In this research, I have provided details of how personal networks helped address barriers in the case narratives of specific enterprises in Chapters 4 to 6, and also in Tables 7.2 to 7.4 in a simplified form. There does not seem to be anything specifically Chinese about helping a brother (Yang's case) or developing a mutually beneficial relationship with a local official (East's case).

Not only is the concept of personal network lacking explanatory power in China, using personal networks is not a uniquely Chinese phenomenon and is found in all societies. Different countries may have different words to name personal networks, but the nature of personal networks may be very similar. People all around the world

use their personal networks with family members and/or friends to obtain information or resources (Dubini & Aldrich, 1991; Fukuyama, 1995; Granovetter, 1983, p. 209; Greve & Salaff, 2003; Krackhardt, 1992). The key factor in terms of business behaviour is not the existence of personal networks, but how they operate, and this current research provides rich details on how China's private property-development enterprises used different types of personal networks to overcome barriers they met. The analytical point, however, is not that they used networks, as that is obvious. The contribution of this research is to show why and how they used their network relationships. What the case narratives reveal is that the use of personal networks was needed because of the lack of other mechanisms which support property-development enterprises in the developed market democracies and that they were used to overcome barriers created by the dominant role of the government and government officials in China. In the face of institutional deficits, these private property-development enterprises developed innovative alternatives.

Although the case narratives revealed the importance of personal networks in overcoming the regulatory barrier, especially in the inception and survival stages, the case narratives of Yang's Property and Wisdom Property also manifested the dark side of personal networks. This dark side of personal networks is not about corruption, but the negative result caused by the trust held in a person. In Yang's case, he was cheated by his business partner in the initial property-development company, Dragon Property. The trust Yang held in his business partner and the close personal relationship between them did not promote the company's development. On the contrary, the company was stolen by the business partner. In Wisdom's case, Tang and Jiao had trust in their business partner, but their business partner tried to hide all the customers' payments for their own use. There is little discussion in the existing research of the potential negative effects of networking, although massive literature focuses on corruption. Gu et al. (2008), by surveying senior executives in 282 companies in China's consumer products industries, conclude that the dark side of networking as a governance structure is salient. But this did not affect their view that personal networks have positive effects in helping enterprises obtain critical resources and information as well as facilitate business operation. Yang's Property and Wisdom

Property's cases clearly revealed the dark side of personal networks, not as corruption, but as exploitation of trust by unscrupulous operators.

In summary, regulatory barriers, such as the need for legitimate licenses and approvals, occurred mostly in the early stages of business growth of the case enterprises. Personal networks and professional trust were two major strategies used by the case enterprises to overcome the regulatory barrier. Despite the usefulness of networking in overcoming regulatory barriers in early growth stages, personal networks were also seen to lead to negative results in these initial stages of growth.

7.4.1 Regulatory barrier is not a stand-alone barrier

In the case narratives, a regulatory barrier did not comprise a stand-alone barrier, but gave rise to land-access and financial barriers. In order to understand the impact of this on the enterprises, it is necessary to take into account the context in which they conduct their businesses. The general context for the three case enterprises is China's transition from a centrally planned economy to a market-oriented economy. The Chinese government still remains in control and has a strong influence on business activities. This is not merely the case as it would be in countries where markets are regulated under the rule of law. In China, intervention by officials is personal as well as legal. As Liao and Sohmen (2001, p. 28) in their study of the development of modern entrepreneurship in China highlight, businesses in China "remain subject to unpublished (*neibu*) regulations and the caprices of courts", because there is a lack of secure property rights and rule of law in China is weak. In this case, Chinese businesses must deal with governments at different levels, taking account of their different or even conflicting agendas. As seen in Yang's case, the networks Yang's brother had with government officials promoted the enterprise's growth. On the other hand, this approach would be less effective where the entrepreneurs do not have good access to such networks of influence. These networks may in fact limit business opportunities in general by channelling business opportunities to a small number of people within the networks. In this sense, such networks are therefore disincentives to innovation and enterprise. The networks facilitate the activities of some entrepreneurs but also limit the activity of others and thus form a further barrier to business development.

Under these circumstances, government policy changes significantly affect property-development enterprises' capacities to obtain land and finance. So regulatory barriers, often noted in international studies of business activity, are not merely a separate barrier in China. In addition, they are likely to be the cause of the other three barriers met by the case enterprises. In particular, some of the land-access and financial barriers were largely created by government policies and government preference towards large SOEs. For example, as mentioned in the literature review, local governments in China prefer to sell land-use rights to large state-owned property-development enterprises. Therefore, local governments have tailored the selection criteria based on the features of their preferred SOEs. By doing this, a large number of private property-development enterprises, especially those with small-to-medium scale, have been restricted from gaining land wanted by SOEs. This has created the land-access barrier. In this current research it was evident that all three case enterprises met this land-access barrier. Similar to the creation of the land-access barrier, banks, which are themselves government-owned, presented strong preferences towards SOEs over private property-development enterprises. Therefore, state activity also created additional financial barriers.

7.5 Land-access barrier

Chapter 2 found that, because of government policies, such as *Provisions on Assignment of State-owned Construction Land Use Right through Bid Invitation, Auction and Quotation* (Ministry of Land and Resources, 2007, originally promulgated in 2002), private property developers were at a disadvantage when competing with large SOEs in bidding for land. This is especially the case when governments set qualifications and requirements favouring large state-owned property-development enterprises. The other form of land-access barrier identified in Chapter 2 was the conflict between property developers and villagers when acquiring land converted from agricultural use. The reason for this conflict is the poor compensation to villagers. Both forms of the land-access barrier were found evident in the case narratives.

For the case enterprises, dealing with the land-access barrier was different from dealing with other barriers for two major reasons. First, the process of obtaining land may include many people from different organisations. Precisely because it is a more

complex issue, overcoming the land-access barriers can only be partly explained by networks. Second, land has unique features that distinguish its impact as a barrier from finance and internal management. One is that because land is a physical reality, dealing in it tends to be public and more transparent. Land is also the foundation of all economic enterprises. However, in China, there is no clear market where land could be commodified. Under these circumstances, it may be extremely difficult for China's private property-development enterprises to obtain land, and these enterprises may have to use a lot of entrepreneurial initiative to handle this land-access barrier. Table 7.6 presents the land-access barrier the case enterprises met and their strategies to overcome it.

Table 7.6 Land-access barriers experienced by three case enterprises and their strategies

Yang's	Land-access barrier and strategies	Wisdom	Land-access barrier and strategies	East	Land-access barrier and strategies
1997: Dragon Property		Establishing Wisdom Property	Negotiated with local Forestry Administration and offered higher prices than other property developers with immediate payment of RMB 1 million. This created financial stress.	1. Residential Area One	Personal network with the Village Mayor to obtain village-owned land.
1 TIT's old office building	Collaboration with a large SOE through Yang's elder brother.			2. Residential Area Two	Same as above.
2 Century's old residential building B100	The elder brother's personal network with the General Director of the government business and Director-General of the Construction Committee. Both were given financial benefits. Former residents refused to leave: "carrot and stick" approach.	City Garden 2004	Competed with two large SOEs in the public auction process. Three main management staff attended the auction: more flexible and prompt than those SOEs.	3. Two residential buildings for Childer Village	Same as above.
3 Landscape	Guang Yang's network with the Village Mayor. In 2008, villagers refused to leave: "carrot and stick" approach.	Projects conducted from 2005 to when the interviews were conducted	Overcome land-access barrier through acquiring converted land. The project named Gold Garden starting in 2005 is an example. Strategies include: 1. Started negotiation in 2000; 2. Compensating villagers; 3. Built 43 residential buildings for villagers; 4. Commercial units for villagers at lower rent; 5. Invited a famous department store so that villagers, being shareholders, can earn income from the project.	4. Harmony Garden – first stage	Same as above.
4 Peace	Guang Yang helped Yang to obtain it from a large SOE.			5. Harmony Garden – second stage	Same as above.
5 Duke Villa	Personal network with the Commander of Local City Police Squad. Villagers refused to leave: "carrot and stick" approach.			6. Leisure Garden	Collaboration with Local City Bureau of Communication through personal network with the Director-General. The Bureau was the owner of land.
				7. Oak Tree	Personal network with an intermediary who had connection with government officials in a nearby city. East Property moved to a less-developed city.
				8. Continental	

According to Scott and Bruce's (1987) business model, by the time the fieldwork for this research was conducted, Wisdom Property had reached the expansion stage. Wisdom Property had most of the characteristics, noted in the model, of businesses in the expansion stage, for example, Wisdom Property's management style was more professional and administrative compared to the other two enterprises, and Wisdom had a budgeting system, monthly reports, and delegated control. Yang's Property and East Property remained in the survival and growth stages, where they had characteristics of simple bookkeeping and simple or centralised organisational structure.

By applying the stages of growth framework, this analysis of the barriers and strategies of the case enterprises reveals that the strategies used by the three enterprises are related to their stage of growth. In particular, the entrepreneurs' different strategies when dealing with land-access barriers provide a good example to illustrate the differences of their responses to barriers when the personal networks did not work.

When dealing with the land-access barrier, enterprises in survival and growth stages, Yang's Property and East Property, relied heavily on personal networks as they did in relation to regulatory barriers. In Yang's case, Yang's elder brother assisted him in identifying opportunities and in obtaining land. Similar to Yang's Property, East Property had a heavy reliance on using Kong's political connections with the Village Mayor or other government officials to overcome the land-access barrier. This strategy worked well when the entrepreneur had a close personal relationship with the Mayor of Childer Village who provided both cheap land and financial support to the company prior to and right after the privatisation of the village-owned property-development enterprise. This approach also worked when East Property moved to the less-developed North City, where it could use the close personal network with a government official's relative. However, this approach stopped working when the City Mayor was changed. East Property moved to a less-developed city as the entrepreneur thought conducting property-development projects in less-developed cities would be easier. However, as the case narrative shows, while it was easier to succeed in North City at the beginning because of the close relationship with government officials who

could provide favourable terms to East Property, this could only work if these close personal relationships remained.

However, when an enterprise had to deal with the former residents and the villagers, different strategies were more effective for enterprises in a more advanced growth stage. The differences are related to the varied circumstances of obtaining land in each project and to the heavy reliance on personal networks and use of more sustainable strategies the enterprises adopted in particular projects. In particular, the need to deal with villagers to obtain land for property development provides a particular example of how these entrepreneurs developed new ways of working. Both Yang's Property and Wisdom Property had to deal with villagers to obtain land. However, these two companies took very different approaches. In Yang's case, the utility of personal networks to address the land-access barriers stopped when dealing with a large group of villagers, where this elite-based contact did not work and a crisis of access threatened the viability of the project. Yang's Property mainly used the "carrot and stick" approach where they used a combination of police and gangsters imposing pressure on the former villagers as well as increasing compensation to appease them. Yang saw villagers as a major problem and took very strong action to neutralise their impact on the enterprise.

On the contrary, Wisdom Property did not perceive dealing with villagers as a major problem and they used a different approach to Yang's Property. Wisdom Property provided villagers with vested interests by building and renting commercial units to them at low prices and building and inviting department stores to give villagers personal interests in the project through employment and consumer opportunities. By acting on the opportunity rather than the threat in this situation, the company and the villagers reached a win-win situation, where both parties could benefit from the transaction.

Wisdom Property's approach in addressing the land-access barrier was more likely to create a situation of "shared value", as defined by Porter and Kramer (2011). This was found in their research to be essential to building and sustaining support for controversial enterprises in the wider society. Porter and Kramer (2011, p. 4) distinguish shared value from social responsibility, and highlight that shared value

“includes creating economic value in a way that also creates value for the society by addressing its needs and challenges”. In their view, shared value can be created through three major ways: reconceiving products and markets, redefining productivity in the value chain, and building supportive industry clusters (Porter and Kramer, 2011, p. 7). Wisdom Property’s strategy in overcoming the land-access barrier took into account the needs of the villagers. Supportive methods, such as renting commercial units to villagers at a lower rate and building the department store for the village, resolved the bread-and-butter issue for villagers who stood to lose their traditional income from cultivation of the land. By renting these commercial units at lower rates to the villagers, Wisdom Property overcame potential conflicts with the villagers and added value to the project. The villagers could make a living by opening shops and residents of the property-development projects would benefit from the convenience of having these shops very near to their homes.

The approach used by Yang’s Property is not as sustainable as Wisdom Property’s approach. Yang’s approach of using both the police and gangsters could work once, but it could hardly be used repetitively without creating civil unrest. This is because that every time they use this method, the costs associated with it will increase. The increased costs were found evident in Yang’s case. Yang decided to give 20 percent of the company’s shares to Duan, the Commander of the Local City Police Squad. By giving out company shares, he not only increased the costs but also increased the risk that the company would be stolen, as happened in Dragon Property.

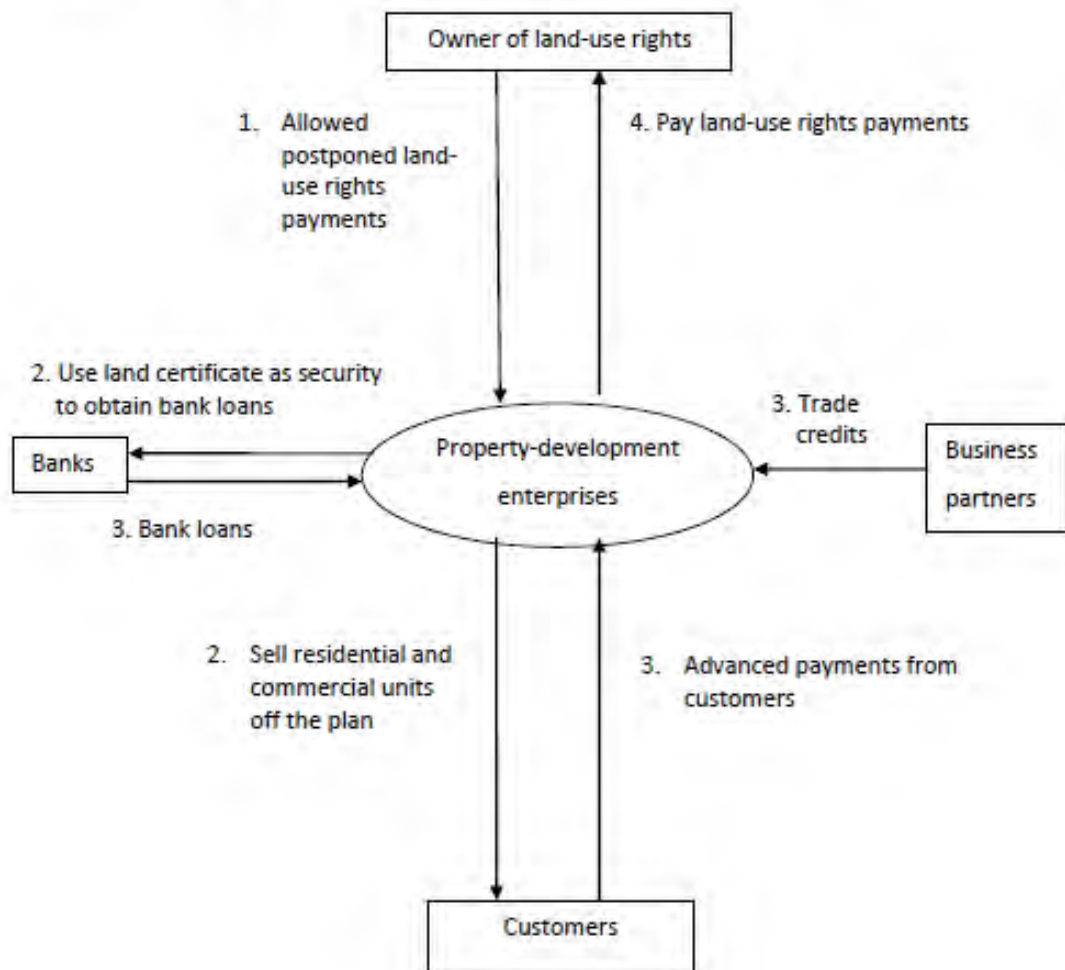
In short, East Property’s approach to dealing with the land-access barrier was not sustainable, and it had the character of a frontier mentality. The entrepreneur tried to solve the land-access barrier by going increasingly further from the market influence and competition, but it seemed to be impossible for them to address this land-access barrier when the close relationship with the government official broke up. East Property’s approach was similar to Yang’s Property’s heavy-handed approach in that, it could work at first, but would create further risks so that these approaches could not be repeated indefinitely. They both represent a shortcut of substituting the utilisation of personal relationships for the operation of a formal land market as found in developed market economies. Both failed because the personal relationships were not sustainable.

7.5.1 Similarities of strategies used by case enterprises to overcome land-access barrier

Despite the differences in the strategies used by a particular enterprise in different growth stages, there are also similarities in the strategies used between the enterprises. In some instances, the resolution of land-access barriers simultaneously addressed the financial barriers. Figure 7.1 presents the general strategy used by the case enterprises in overcoming the land-access and financial barriers. The case enterprises initially used personal networks with the owner of the land-use rights to obtain the permit to postpone the payments. When agreement was reached between the enterprise and the land owner, the case enterprises would then obtain the land certificate by paying a small amount of land payment or even without any payment. The key to the development, therefore, was agreement between the enterprises and the land owner. In a private-property-based economy, this would most likely involve a direct and open financial arrangement. In China, however, land is owned by government, SOEs, or village councils. In the case narratives developed in this research, it was personal networks with key officials in the land-owning body that was the vehicle for access. With the land certificate in hand, property-development enterprises then chose to either obtain bank loans or start the property-development projects and sell the units off the plan, or both. As a result, the financial barrier was overcome by receiving bank loans, customers' advance payments, and trade credits from business partners. Subsequently, the property-development enterprises would repay the rest of the land-use rights payment to the owner. This again confirms the importance of personal networks, especially political connections in assisting enterprises to obtain crucial resources.

The key point to note from the three case narratives, however, is that the use of networks varied depending on the circumstances of who controlled the land. So entrepreneurial flexibility allowed the enterprises to use networks directed at gaining access through government, SOEs or village councils, as appropriate for the different projects.

Figure 7.1 Process of overcoming land-access and financial barriers



Overcoming the land-access barrier was clearly crucial to the development of the property development enterprises. Personal networks with the landowners were of great importance not only in obtaining the land-use rights, but also in obtaining the permission for late repayment. This points again to one of the key findings of this research which is about trust and personal relationships being applied in this new property-development industry of China in this period of transition to a more open and market-oriented economy. While these concepts of trust and relationships have been well-researched in international contexts, these case narratives have shown how, within this specific environment, they have a particular utility in overcoming the barriers created by uncertainty, especially in relation to uncertainty of land ownership.

7.6 Financial barrier

As with the land-access barrier, there are similarities and differences among the strategies used by the three case enterprises when facing financial barriers. Table 7.7 summarizes the strategies used by three case enterprises to overcome financial barriers. Similar approaches across the three case enterprises to overcome financial barriers include using retained profits from previous property-development projects, delaying payments for land through personal arrangements with the landowner, collecting advanced payments from customers and receiving trade credits from business partners. Bank loans were not the primary sources of finance for the case enterprises, because of the difficulty of obtaining bank loans and high interest expenses attached.

Table 7.7 Financial barriers experienced by three case enterprises and their strategies

Yang's Property	Financial barrier and strategies	Project	Financial barrier and strategies	Project	Financial barrier and strategies
1997: Dragon Property		Establishing Wisdom Property	Personal network with previous clients. Clients invested in the new company. Financial stress created by the immediate land payment was overcome through a new sales strategy. Wisdom Property received prepayments from the Local Administration of Taxation, which was their major customer.	Residential Area One	
1 TIT's old office building	Yang's elder brother, the General Manager of the SOE, allowed the postponement of the land-use right payment.			Residential Area Two	Personal network with the Village Mayor to postpone payment. The Village Mayor authorised investment in the company to employ construction team.
2 Century's old residential building B100	1. Advanced payments from consumers; 2. Delayed payments to builder (trade credits); 3. Obtained bank loans (small amount).			Two residential buildings for Childer Village	1. Personal network with the Village Mayor to postpone payment; and 2. Used customers' prepayments to pay land expenses.
3 Landscape	1. Did not start project immediately after obtaining the land; 2. Profit obtained from previous property-development projects; 3. Profit from building a road for the nearby district, Lancun District; 4. Increased plot ratio to generate more profits.	City Garden 2004	Obtained bank loans for the first time by mortgage. Guang Yang helped to obtain the land certificate, as his friend was the Director-General of Local Bureau of Land and Resources.	Harmony Garden –first stage	Personal network with the Village Mayor to obtain discounted land price and postpone land payment.
4 Peace	The elder brother's personal network with another property-development enterprise – this nominal enterprise paid for the land expense of RMB 6 million – Yang's Property was the real company in charge.			Harmony Garden –second stage	1. Personal network with the Village Mayor to postpone payment; and 2. Used customers' prepayments to pay land expenses.
5 Duke Villa	1. Manipulated bank loans of RMB 400,000 by having Yang's relatives as mendacious buyers; 2. Borrowed from friends and relatives totalling RMB 40 million.	Projects conducted from 2005 to when the interviews were conducted	Split every project into different stages, started with the stage in best location but at the lowest prices.	Leisure Garden	1. Invested the profits earned from the second stage of Harmony Garden to Leisure Garden project; 2. Delayed payments to construction company; and 3. Prepayments from customers.
				Oak Tree Continental	Private lending through informal channel at the interest rate of 15%.

The three case narratives revealed various levels of difficulties in obtaining bank loans. This was also linked to the business growth stage and managerial capacities of the enterprises. Chapter 2 identified that China's private property developers are likely to have difficulty in obtaining bank loans, because of the discrimination against private enterprises and the banks' preference towards SOEs. By contrast to these findings in the research literature, Wisdom Property had no difficulty in obtaining bank loans. While Wisdom Property reported that they did not have any difficulties in obtaining bank loans, the main reason they did not use bank loans was the high interest expenses.

Wisdom Property's lack of difficulty in obtaining bank loans relates to the credibility of the enterprise and the level of risk perceived by the banks. According to Scott and Bruce's (1987) business growth model, Wisdom Property was in the expansion stage at the time of this research. Scott and Bruce (1987, p. 50) note that enterprises in the expansion stage have a track record of successful operation. In particular, Wisdom Property was a leading property-development enterprise in Local City. Its reputation and credibility had been gradually built up over 19 years and was recognised by banks and the general public. As presented in Table 7.1 at the beginning of this chapter, the annual revenue of Wisdom Property in the five years, 2006 to 2010, was between RMB 300,000,000 and RMB 450,000,000 (US\$48,986,789 to US\$73,480,184). Compared to Wisdom Property, Yang's Property and East Property were smaller in terms of scale and annual revenue. Banks were therefore likely to view Yang's Property and East Property as more risky in terms of repayment capacity. In fact, East Property did fail in repaying bank loans, which added additional difficulty to their future applications for bank loans.

In addition to the ease of obtaining bank loans, Wisdom Property developed their own financial strategy for conducting property-development projects. This financial strategy ensured the company's cash flow and reduced the possibility of the occurrence of the financial barrier at the same time as it promoted the virtuous circle of the enterprise's finance. Wisdom Property's strategy was to split each property-development project into stages and develop each over several years. This strategy not only maintained sufficient cash flow, but also reduced the risk caused by market fluctuations or policy changes. For example, if a project is developed in a single stage and if there is a policy change to cool down the property-development industry at the

time of the project completion, the units may be very difficult to sell and this would cause a financial problem for the enterprise. However, developing a project in several stages over a longer period of time can reduce this risk and maintain cash flow for the company.

In summary, the different level of difficulty in obtaining bank loans and Wisdom's own strategies in keeping cash flow up suggest that the managerial capabilities of the entrepreneurs are vital in establishing the enterprise's strategy when facing financial barriers. In this research, not every case enterprise experienced financial barriers. The financial barriers derive from China's under-developed financial system, but from the case narratives, the creation of financial barriers was also linked to the way case enterprises developed their capacity to manage the projects. From the case of Wisdom Property, splitting each project into several stages proved to be effective in mitigating financial stress.

7.7 Internal barrier

Chapter 2 discussed the likelihood that China's private property developers would lack management skills, have a simple organisational structure, and informal HRM. This research revealed that the increasing importance of internal management with the business growth of enterprises, and showed that an over-simplified organisational structure can negatively influence business performance. Scott and Bruce's (1987) framework of stages of small business growth also found that internal management is an increasingly important issue for the sustainability of enterprises, especially at later stages.

Before embarking on discussing the differences in internal management, a major similarity among the three case enterprises is that all the entrepreneurs exercised great flexibility in making decisions and in their management approaches. One reason for this was that these entrepreneurs had to be politically nimble in terms of the policy changes at various levels of government. Liao and Sohmen (2001, p. 30) identify two major characteristics of Chinese entrepreneurs as political nimbleness and interpersonal harmony. Interpersonal harmony is related to the use of personal networks, which can be easily understood in terms of international research findings

because personal networks are important in all societies. In China, however, the difference in the environment has meant that networks appear to observers to be of more importance. In the cases in this research, the networks were only important because of the uncertain environment. It can therefore be argued that it is the uncertainty that is primary and that political nimbleness is relevant to this uncertainty in China's political environment. Li and Matlay (2006, p. 256) argue that under the uncertain economic and political circumstances in the socio-economic transition period, political nimbleness is necessary for both business profit-making and the survival of enterprises. In each of the case narratives in this research, entrepreneurs kept great flexibility in their management approaches, which involved political nimbleness. They were proactive towards the changes in situations, rather than following a fixed management system.

However, being flexible in management approach and decision-making is different from having an over-simplified organisational structure. Being flexible gave these enterprises the ability to adapt to changes. However, this research found that having an over-simplified organisational structure meant that the enterprises could not cope with the demands that came with the growth stage in the phases of small business development framework. The three case enterprises had different levels of internal management problems. Table 7.8 presents the internal barriers faced by the case enterprises and their strategies in dealing with them.

Table 7.8 Internal barriers and strategies used by case enterprises

Enterprise	Strategies to internal barriers
Yang's Property	Internal management was not recognised as a barrier by the informants of Yang's Property. However, through observation, this research found Yang's Property had a centralised organisational structure. Yang, as the enterprise owner, is the decision-maker. In addition, Yang's Property had an accounting department.
Wisdom Property	Unspecific division of work among different departments. 1. Internally and externally sourced training; and 2. Deputy General Manager updated company documents to specify the division of work among departments and procedures when dealing with issues, such as residents' maintenance requests.
East Property	Very simple organisational structure. No proactive strategies were taken to address internal barriers.

From the above it can be seen that the greatest contrast was between East Property's internal management and that of Wisdom Property. The more modern corporate management structure of Wisdom Property and the informal management structure of East Property provide a stark contrast, while the resulting differences in capacity to deal with barriers show the importance of internal management for the sustained success of China's private property-development enterprises.

In Wisdom Property's case, the company had a more established company structure and took a few measures to address the internal management problems, such as the unspecific division of work. In particular, they employed both internally and externally sourced training as well as regularly updating company documents, policies, and procedures. When the work responsibilities were clarified among the different departments, it was difficult for employees to shirk responsibilities and it avoided delay in resolving issues, such as customer maintenance requests. Wisdom Property's approaches were different from both Yang's Property and East Property. In particular, Yang's Property did not view internal management as a potential barrier limiting their growth. Yang's Property attached more importance to their access to land and finance, which in their mind were more important to property-development enterprises than internal management, because they believed that as long as they obtained land, they would be able to make substantial profits from the ensuing property-development projects.

East Property presented a simple organisational structure without sufficient full-time employees for normal business operations. The entrepreneur did not view internal management as a vital part of the business operation. When problems emerged, East Property did not have an appropriate organisational structure or even management staff to address the problems. This meant that East Property was not able to resolve most of the problems it faced, and this led to negative results. For example, East Property did not have a management system to address the disputes with the residents on breach of contract. As the case narrative showed, the consequent disputes resulted in lawsuits, which had negative impacts on the enterprise. The over-simplified organisational structure with only four full-time employees and the lack of management skills were a major reason why East Property was involved in three lawsuits with their business partner, employees, and customers.

The internal problems met by East Property show that there is great need for developing new managerial capacity to match the growth of the enterprise. As presented in the case narrative in Chapter 6, East Property relied extremely heavily on the entrepreneur's personal network in obtaining land and finance. This sole reliance on personal network worked effectively when the enterprise was in its early stages, that is to say in the inception and in part of the survival stage envisioned in Scott and Bruce's (1987) framework. Moving to the less developed North City enabled this "frontier approach" to work for a little longer, because the company could repeat its approach in the new city. In fact, moving to a new "frontier" did not resolve East Property's land-access and financial barriers as the enterprise expected. This was because what really contributed to addressing the barriers in East's previous property-development projects was the personal network. The enterprise did not develop a management approach that enabled it to operate successfully regardless of changes in the personal network it dealt with. Without developing managerial capacities to cope with its business growth and by maintaining the over-simplified organisational structure, it was very difficult for East Property to overcome the barriers by merely moving to a new frontier, because they did not resolve the problem and the same problem might happen again.

These case narratives revealed an increasing need for managerial capacity with business growth. To some extent, this confirms the results of existing research. For example,

Zahra and Filatotchev (2004, p. 886) took a knowledge-based perspective in the research into governance of the entrepreneurial threshold firms, and note that enterprises which survive in the early years will need to change as they move to the next stage of their organisational life cycle (OLC). In particular, they established that this transition is difficult for enterprises because the technological, administrative, and organisational skills that enabled successful start-ups are inadequate to meet the challenges of the next stage of OLC. Therefore, enterprises must develop new capacities while they exploit the existing capacities (Zahra & Filatotchev, 2004). In one sense, it is not surprising that the case narratives in this research reveal the importance of moving from an approach based on personal relationships to one based on a more professional approach to management. In another sense, this is an interesting finding because so much of the research literature on business behaviour in China emphasises the primacy of networks in successful operation regardless of the stage of business growth of the enterprise.

Therefore, it was found in this research that the internal barrier issue had significant impacts on the company's sustainable development. This is because in the early stages, enterprises may successfully use approaches that provide temporary solutions to immediate problems. The use of personal networks to do business is an example of this. However, when the company develops to a certain stage, such as the growth and expansion stages, simply relying on personal networks may be insufficient to keep the business operating successfully as the problems they face become more complex.

7.8 Summary

This chapter has drawn together the main findings of this research on how China's private property-development enterprises overcome barriers to success. It started with summarising the three case narratives in terms of the barriers they met and strategies they undertook to overcome the barriers. After that, this chapter looked into the similarities and differences in the case enterprises' response to regulatory, land-access, financial, and internal barriers guided by Scott and Bruce's (1987) business growth model, and related the discussion to established research findings.

Not surprisingly, personal networks played a vital role in addressing the barriers met by the case enterprises. These networks included networks with government officials, family members, old friends, or power-for-money deals. This finding confirmed that personal networks worked in addressing barriers in private enterprises in the context of China's property-development industry. If this was the only conclusion of this research, it would do no more than show that what is generally believed to be true of Chinese business operations is also true in the private property-development enterprises investigated in this research. One problem with such a finding would be that, while it might have descriptive power, it would lack analytical power and might run the risk of focusing only on the positive case, in which networks are effective. This research adds to the literature by showing that in some cases, personal networks have negative effects on business growth, and that their utility is greatest in the first stages of enterprise development. After that, they may become counter-productive if too much reliance is placed on them to the exclusion of developing proper managerial capacity.

The stages of small business growth model developed by Scott and Bruce (1987) was used to get beyond the snapshot effect evident in some of the research by showing the relationship between the barriers encountered, the strategies used to address them, and the stages of growth of particular enterprises. This time-sensitive framework has been useful in explaining why the case narratives show that these enterprises experienced some phenomena that could only be partially explicable by personal networks. One particular example was the different approaches the case enterprises took in overcoming the land-access barrier when seeking to use land owned by villagers. One-off methods, such as employing police and gangsters, could work temporarily, but they increased the risk that the company could be stolen by other people and that transaction costs of the company would contiguously increase. In addition, these one-off methods could hardly be used repetitively. By contrast, Wisdom Property's approach of creating shared value between the company and former villages, worked well, as Wisdom Property did not have any conflicts with villagers and was sustainable over time and at more advanced stages of growth. Furthermore, with this successful experience in dealing with villagers behind them, they were able to overcome land-access barriers over the long term by specialising in obtaining

converted land from village ownership. This approach of creating shared value was thus a more sustainable approach to overcoming land-access barriers.

This current research also found the factor differentiating enterprises' performance is not personal networks but the level of managerial capacity of the enterprises. In particular, the use of the Scott and Bruce's (1987) model showed that appropriate internal management became more and more important as the private property-development enterprises developed beyond the initial stages. This may be generalised in terms of how, in order to keep growing, China's enterprises will need to develop new capacities while exploiting their existing skills. This is because the complexity of China's business environment will require the growth of enterprises' capability for flexibility and adapting to new circumstances to overcome new barriers. This research also found that size and organisational structure are relevant to an enterprise's managerial capacities. For example, Wisdom Property had the most full-time employees, therefore they had different management personnel being responsible for specific management tasks. While East Property only had four full-time employees, and its case narrative revealed that they could not cope with the complex process of property development, especially as the enterprise moved into new stages of growth.

A particularly effective application of Scott and Bruce's (1987) stages of small business growth model to the material in the case narratives is evident in the case of the role of personal networks. As explained earlier in this chapter, Scott and Bruce (1987) established five stages of small business growth and the discussion in this chapter fitted the case narratives in this research into the five stages in a way that assists analysis of the behaviour of the case enterprises. Applying the stages of growth framework to the case enterprises revealed the possibility that Chinese business behaviour is governed as much by the stages of development of business as by any overarching cultural factors on which so much commentary has focused. In terms of overcoming barriers, for instance, networks were important to the case enterprises in stages one and two of growth, the inception and survival stages. However, networks rapidly became less important as the problems faced changed as the enterprises moved through the stages. In later growth stages of growth, expansion and maturity, managerial capacity of an enterprise became more important than networks when addressing obstacles faced by enterprises. The enterprises that continued to rely on

personal networks were less successful than those that moved to address internal management capacity issues.

Nonetheless, this research also found that networks are an adaptive entrepreneurial response to uncertainties. The case narratives revealed two major types of uncertainties faced by China's private property developers: an uncertain business environment, with major policy uncertainty; and the lack of market-oriented institutions. Here again Scott and Bruce's (1987) model provided a useful framework for analysis because of changes experienced in different stages of growth. The type of uncertainty that arises in the Chinese environment at the beginning of an enterprise is mostly regulatory uncertainty. In the experience of these case property-development enterprises, the informants added land uncertainty and financial uncertainty as serious barriers to success. These initial uncertainties can be addressed by networks, as seen in the case narratives. For example, if the enterprise had policy uncertainty with local government, they made use of networks that gave them access to the Mayor; and if the enterprise had policy uncertainty with the SOE, they made use of networks that gave them access to the General Director of the SOE. However, these uncertainties do not necessarily indicate that all early stage business behaviour will be governed by the use of networks. The uncertainties at this stage can also be addressed by professional trust, as in Wisdom's case. Furthermore, if they are addressed by professional trust, this professional trust continues to the later stages of the business growth, whereas the networks do not necessarily continue. In the circumstances of case narratives in this research, some of the networks did not continue simply because of changes in personnel in positions of power. The trust built by professional reputation, however, endured and stood Wisdom in good stead in later stages of growth.

Chapter 8 Conclusion and implications

8.1 Introduction

This thesis investigated the survival and growth of China's private property-development enterprises by studying the barriers they faced and the strategies used by three Chinese private property-development enterprises to overcome them. The growth of the private housing sector highlights the tensions in China between the emergence of a more market-oriented economy and the continuance of government-controlled economic development.

The detailed investigation of the three case enterprises contributes to a picture of the experience of Chinese private enterprises dealing with the actual barriers arising from China's less than conducive political and economic environment. The substantial details presented in the case narratives were seen to be of potential use for academic researchers, practitioners, Chinese government decision-makers, and observers of China's transition. These broader implications of this research will be addressed in detail later in this chapter.

This chapter is organised as follows. Section 8.2 reviews the research conducted for this thesis, while Section 8.3 draws together conclusions from the three case narratives investigating how China's private property-development enterprises overcome barriers to business success. Section 8.4 discusses the implications of this research and Section 8.5 highlights the contribution of this research to business scholarship and practice.

8.2 Review of the research

This thesis investigated the barriers faced by China's property-development enterprises and how they responded to these barriers. Chapter 1 outlined the research context and significance of the research problem and the research methods used. Chapter 2 provided contextual background on the development of the private sector in China and the property-development industry in China. The barriers that China's private property-development enterprises were likely to experience were identified as regulatory, financial, land-access, and internal barriers. The literature suggested

strategies such as networking, building trust and reputation, developing political connections, and entrepreneurs' personal traits as potential strategies for overcoming these barriers. Chapter 2 also discussed Scott and Bruce's (1987) small business growth model as a framework for analysing the case narratives.

Chapter 3 detailed the research design and research methods. This research used orthodox qualitative research methods (Creswell, 2007; Denzin & Lincoln, 2005b; Merriam, 2009) for analysing multiple cases using narrative inquiry methods (Wells, 2011). Using purposive sampling methods, this research selected three case enterprises located in the same municipality in east China. They covered two major types of Chinese private enterprise: the entrepreneurial start-up and the privatised formerly SOE. Convenience of data access represented a major consideration when selecting cases, as the trust established between the key informants and the researcher contributed to the reliability of information gathered. To establish and maintain this level of trust, I had initial informal personal conversations and repeated interactions with the key informants during and after the fieldwork.

This research mainly used in-depth interviews with key informants to collect the empirical data relied on for this thesis. These key informants included persons such as the owner of the case enterprise, close family members who advised and observed these entrepreneurs, and management staff members who had extensive knowledge of the enterprises' development. The entrepreneurs interviewed were best placed to describe the details and explain the reasoning involved in the identification of barriers and the choices they made to respond to them. In addition to the in-depth interviews, I also collected relevant company documents, newspaper articles and details of relevant government policies.

After addressing the research design and research methods, Chapters 4 to 6 presented the three case narratives of enterprises with pseudonyms of Yang's Property, Wisdom Property, and East Property. The three case enterprises had been established for more than five years. This time period allowed the investigation of barriers they met during the establishment as well as the development of the enterprises. All four barriers, identified in the research literature were evident in the case narratives. However, the way in which and intensity with which each enterprise experienced them varied.

Furthermore, these three case enterprises used different strategies to address the barriers and therefore developed different modes of operation as their businesses developed over time.

The case narrative of Yang's Property showed that Yang was opportunistic and very good at grasping opportunities. Different opportunities occurred during the development process and Yang grasped them. He succeeded sometimes and failed sometimes. Nepotism played an important role in the development of Yang's Property, especially in the early stage of its establishment. Yang's elder brother, Guang Yang, who was a management staff member in a large SOE, used his reputation to assist Yang in obtaining land. However, Yang's responses to barriers emerged from the narrative as a series of random actions with little chance of being systematised into a sustainable operational model. For example, he used a "carrot and stick" method of violence and rewards when dealing with villagers to obtain land. This method might be effective temporarily, in the inception and survival stages, however, the risk associated with the use of violence and the cost of rewards increased significantly when Yang used it repeatedly. Therefore this strategy was unlikely to provide a pathway to long-term growth of the enterprise because he did not alter his approach as his business moved into the growth stage.

The second case, Wisdom Property, may be distinguished from Yang's Property and East Property in the strategies used to overcome barriers and in the internal management structure. Wisdom Property was established by two professionals who had extensive knowledge of the industry. The case of Wisdom Property showed the importance of professional trust, rather than personal networks, in gaining access to land and finance. It also demonstrated the utility of creating shared value, rather than threats and direct payments, when facing land-access barriers. When dealing with village land for instance, Wisdom Property offered villagers low-cost residential units, low-rent commercial units, and a vested interest in the success of the development through part ownership of the development's major retail enterprise. By taking these actions, they created a virtuous circle. This meant that other villages could expect that they could negotiate a similar deal with Wisdom Property to obtain ongoing benefit from the property development. The case of Wisdom Property also presented an organised company structure, where

issues were addressed in a timely manner by different departments in the enterprise, rather than having a random response to crises.

The third case for this research was East Property. East Property was a different type of private enterprise from the first two cases, because it was a privatised former SOE. The case of East Property revealed the importance of personal networks in obtaining land and finance. East Property's successful property-development projects relied heavily on the enterprise owner's close personal relationships with the former Village Mayor or government officials. This meant that when the personal relationships with government officials did not exist, East Property could no longer obtain the favourable terms from local government.

The case of East Property also demonstrated how appropriate internal management processes became more important as the enterprise became more developed. East Property and Wisdom Property formed a distinct contrast in internal management practices. East Property had a very simple organisational structure, with only four full-time employees. This management structure may not have affected the enterprise at the early stage. However, with the development of East Property, the enterprises experienced some issues, for example, very informal HR policies and commission policies, and no management staff members were responsible for resolving disputes with residents. This lack of internal management led to three lawsuits against the enterprise. This situation indicated the need for a systematic internal management structure to deal with day-to day management issues in a consistent manner.

Following the three case narratives, Chapter 7 provided interpretation and analysis of the three cases. Chapter 7 began with a review of company profiles, the barriers met by each enterprise, and their strategies to overcome these barriers. After that, Scott and Bruce's (1987) small business growth model was relied on to analyse the business development approaches evident across the three case narratives.

8.3 Empirical findings of the research

The main findings were discussed in detail in Chapter 7. This section will synthesise the findings to answer the central research question addressed in this thesis. The first

part of the central research question that this thesis addresses asked: what were the major barriers faced by China's private property-development enterprises?

Barriers identified from the literature include regulatory, financial, land-access, and internal barriers and they were found to be evident in all three case enterprises. This research also found that the occurrence of barriers is related to the stages of business growth. Using Scott and Bruce's (1987) framework of five stages of small business growth, this research suggested that the regulatory barrier was the major barrier faced by case enterprises in the initial stage of inception and survival. With the growth of the case enterprises, they met land-access and financial barriers in the survival and growth stages. When the enterprises grow to the stages described by Scott and Bruce (1987) as growth and expansion stages, internal barriers become more obvious than that in earlier stages.

The second part of the central research question asked: how did China's property-development enterprises overcome these barriers? This research found Chinese business behaviour was governed as much by the stages of development of business as by any overarching cultural factors on which so much commentary has focused. The use of personal networks as a business strategy evident in the literature was also found to be effective in helping these private property-development enterprises to overcome barriers to their growth and development, especially in their earlier growth stages. In these cases, however, this really only applied to those networks which created political connections and even these were only really effective in the earlier stages of the enterprises, described by Scott and Bruce (1987) as the inception and survival stages. For example, Yang obtained land and finance through his relationship with his brother, and his brother's relationship with government officials and SOEs. East Property obtained land and finance through the entrepreneur's relationship with the Village Mayor.

Professional trust emerged as an alternative strategy to overcome barriers to business development. The case narrative of Wisdom Property revealed that professional trust was effective in helping the enterprise obtain land from villagers and keeping up cash flow. The major difference between these two strategies is that networks may not be sustainable because they rely on individuals and emotions, but professional trust rests

on reputation and is therefore more likely to continue to later stages of the business growth and to become more sustainable. This was observed in the case narrative of Wisdom Property.

In the narrative developed in this research the use of personal networks did not emerge as the wellspring of business activities but as a strategic response to the uncertainties in the China's business environment. The extensive research that attributes business success in China to personal networks is, to some extent at least, challenged by the findings of this research that, where networks were effective in these cases it was because they represented an adaptive entrepreneurial response to the barriers facing the enterprises. Therefore, the character of the networks and how they were used were determined by the type of barrier they were used to address. Two major types of uncertainties evident in the case narrative included policy uncertainty and the lack of market-oriented institutions. Under these circumstances, entrepreneurs responded to these uncertainties by using their networks. Therefore, these enterprises were successful not because they had networks, but because they found the appropriate networks to address specific uncertainties. For example, if the enterprise had problems obtaining a land certificate, they would then look for relationships with government officials in charge of issuing land certificates.

8.4 Implications of the research

This research has theoretical and practical implications for research into entrepreneurship, for practitioners in China's property-development industry, for Chinese government, and for observers of China's transition.

This research employing three case narratives contributes directly to correcting the recognised lack of sense-making stories in the field of entrepreneurship (Gartner, 2007). These three case narratives revealed the complicated and complex process of entrepreneurship in a specific situation where little previous research is available, the Chinese private property-development industry. Because the key focus of this research has been the actual experience of enterprises, it has used a qualitative approach to present detailed narratives of the three case enterprises in order to address the question of how they deal with barriers to establishment and growth. From the case narratives,

some lessons for entrepreneurial education can be deduced from both the successes and failures of these enterprises.

Practitioners in the property-development industry may learn from the experiences of the three case enterprises. One of the major findings of this research is that professional reputation is a more sustainable source of trust than solely relying on personal networks. In this respect, practitioners could learn from Wisdom's case in gradually building up professional trust rather than relying exclusively on the quick fix of personal relationships. The latter strategy was found to be relatively fragile in the other case narratives.

This research also revealed the importance of developing appropriate internal management structures and processes for the sustainability of the enterprise. When the enterprise grows to a certain stage, such as to the growth and expansion stages, appropriate internal management structures and strategies become necessary to systematise the business operation and to mitigate risks. As was demonstrated in the narrative of East Property, a more ad hoc style of management may work at the early stage, but is not sufficient to cope with problems that arise with the continuous growth of the enterprise.

This research confirmed the importance of personal networks and trust in addressing barriers in China's property-development industry. Chinese policy-makers may consider establishing business industry associations that could speak on behalf of members operating enterprises in particular industries. In addition, Chinese governments could also establish organisations, such as business tribunals, to specify appropriate business behaviours for the industry. Through such increased communication government officials could develop a better understanding of the needs of businesspersons and be more able to enact policies promoting the development of these enterprises.

From the case narratives, it was evident that a gradual build-up of trust occurred following the repeated interactions between business operators and government officials, and these more formal interactions are preferable to the reliance on personal networks that can lead to nepotism or corrupt behaviour.

This research also contributes new knowledge to observers of China's economic transition, by providing substantial details of three Chinese businesses in terms of their background, daily management, and experiences. Rather than looking at China's transition at the macro-economic level on which extensive research has been done, this research studied China's transition from the perspective of the micro-level experience of the three case companies.

As mentioned in Chapter 3, this research is not a comparative study between China's property-development industry and that in the West. In fact, this research investigates the survival and growth of private enterprises in China and the context for this investigation is the property-development industry. The radically different context of China and the West is the major reason for not conducting a comparative study. First, China is transitioning from a planned economy to a market-oriented economy, and this transitional environment is different from most developed market economies. Therefore, private enterprises may operate in a distinct ways from those in China. Second, China's transition economy environment gave rise to a variety of barriers faced by Chinese property developers, including land-access, financial, regulatory and internal barriers, as discussed in Chapter 2. These barriers may be different from those in market economies. Comparing how enterprises overcome barriers in such different environments may generate limited analytical power, because enterprises' responses to barriers are significantly affected by the economic and political environment of the country. Future studies may look at the comparisons between Chinese and Western property-development industry when the economic environment in China is more converged to that in the West. Future research may also compare the process by which Chinese private enterprises in other industries.

8.5 Contributions of this research

This research provides a deeper understanding of how private property enterprises survive and develop in China. The narratives of the three case enterprises highlighted the process of how China's private property developers overcame barriers to success. This research included 35 in-depth interviews with key informants. While this is a relatively small number of informants, the research took great care to ensure that in-depth information was gathered from those most closely involved. The interviews with

key informants about the barriers and strategies, continued until I heard similar responses from different key informants. This assisted me in satisfying the requirements for “theoretical saturation” identified in the literature (Bowen, 2008; Eisenhardt, 1989; Glaser & Strauss, 1967). In order to encourage them to share more information, the initial contact started in 2010 and the trust was gradually built between these key informants and the researcher. This trust also helped to gain access to information that was not publicly available, such as confidential company documents.

The three case narratives presented in Chapters 4 to 6 illustrated the process of how these enterprises overcame barriers to business success. These narratives paid great attention to the “process” rather than focusing only on the result. For example, instead of simply accepting the orthodoxy that personal networks provide Chinese businesses with their most effective strategy, the narratives provided in-depth accounts of what types of personal networks were accessed and how the personal networks were used. Chapter 7 took the analysis further by investigating the strategies used by enterprises in Scott and Bruce’s (1987) small business growth framework. This research found that the strategies used by the case narrative enterprises were related to the stage of business growth of each enterprise. At earlier stages, reliance on personal networks could overcome most barriers to business growth. However, when the enterprise grew to the growth and expansion stages, sole reliance on networks and a simple organisational structure were no longer sufficient to cope with the increased complexity of these businesses. The enterprise that paid more attention at this stage to developing internal management structures and strategies experienced greater success compared to the other two businesses who continued to rely on more informal internal structures and management practices. This finding provides a different perspective to understanding Chinese business operation, which so many observers have concluded is closely linked to use of personal networks without providing many details of the process.

This research set out to investigate the survival and growth of China’s private property-development enterprises through studying the barriers met and strategies used to overcome them by three Chinese private property-development enterprises. It did this by developing case narratives of three businesses built up from interviews with key participants. In doing this it confirmed some expectations drawn from the literature of how these enterprises would act. It also added new insights in two

particular areas. One was that the narratives showed where and how these general insights applied in this new industry, which has not previously been research. The other is that in the actual detail of how the enterprises encountered and overcame barriers, some of the general research findings were shown to either lack explanatory value or to only reflect partial truths. The value of this thesis therefore consists in the detailed record and analysis of the actions of the case narrative enterprises in operating in the difficult and complex business environment of China's rapidly growing but under-researched property-development industry.

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The interviews referred in the text were mainly conducted in two field trips, during June 2011 to July 2011 and during February 2012 to March 2012. During the two field trips, I was able to conduct in-depth interviews with the key informants in the case enterprises. These informants were selected mainly because they participated in the development of the three case enterprises. For example, these informants included the enterprise owners, government officials involved in the case enterprises, and key management personnel. Because this research covers various themes of the enterprises' growth and development, I relied on key informants for their insights. The information obtained through interviews was crucial to my understanding of the barriers that occurred during the development of these enterprises, as well as strategies these entrepreneurs used to overcome the barriers. Other sources, such as company websites, newspaper articles, and government documents were also consulted. These interviews are referred in the text by the name of the interviewee and the date of the interview.

For reasons of confidentiality, informants are listed by their pseudo-surnames. For similar reasons, pseudonyms are used for city names and company names. They are described by the role they played in their organisation, and the relationship to the case narratives.

(A) Interviews

Bian, General Manager of Bian Accountants, which was a company that looks after the accounting compliance of many small businesses. Interviewed in Local City, 05/03/2012.

Cai, former Director-General of Local City Construction Committee, which oversaw the approvals of licences for property-development enterprises. Interviewed in Local City, 02/02/2012.

Deng, Administrative Officer of Local City Housing Administration Bureau, which issued the Property Ownership Certificate. Interviewed in Local City, 12/07/2011.

Guang Yang, former General Manager of Total Industry & Trade, also the elder brother of Yang. Interviewed in Local City, 29/06/2011, 18/07/2011, 19/07/2011, 10/02/2012, 01/03/2012, 06/03/2012.

Guang Yang, former General Manager of Total Industry & Trade. Telephone interview, 10/11/2011, 28/05/2012.

Han, Former Village Mayor of Childer Village, where Childer Village Property and East Property were conducting operations. Interviewed in Local City, 12/07/2011, 06/03/2012.

Hong, General Director of Hong's Property. Interviewed in Local City, 16/07/2011.

Jiao, General Director of Wisdom Property. Interviewed in Local City, 11/07/2011, 28/02/2012.

Kong, Owner of East Property. Interviewed in Local City, 14/07/2011.

Liu, Secretary of the Local City Bureau of Planning, which oversaw the approval of building plans. Interviewed in Local City, 11/07/2011.

Mao, close friend of Hong, who was the General Director of Hong's Property. Interviewed in Local City, 11/07/2011.

Meng, Lawyer, who was responsible for Kong's lawsuits. Interviewed in Local City, 29/02/2012, 05/03/2012.

Ming, former Secretary of the Party Committee in Century Group, which was the parent company of Total Industry & Trade. Interviewed in Local City, 15/07/2011.

Song, Director-General of Local City Housing Administration Bureau, which issued the Property Ownership Certificate. Interviewed in Local City, 12/07/2011.

Tai, Administrative Officer of Local City Housing Administration Bureau, which issued the Property Ownership Certificate. Interviewed in Local City, 12/07/2011.

Tang, General Manager of Wisdom Property. Interviewed in Local City, 05/07/2011, 27/02/2012.

Wei, Deputy General Manager of Wisdom Property. Interviewed in Local City, 08/07/2011.

Wen, former General Manager of Childer Village Plastics Manufacturing Company, also Kong's close friend. Interviewed in Local City, 21/02/2012.

Wong, former accountant of Total Industry & Trade, also Guang Yang's wife. Interviewed in Local City, 30/06/2011, 19/02/2012, 05/03/2012.

Xia, General Manager of Yang's Property. Interviewed in Local City, 04/07/2011.

Yang, Managing Director of Yang's Property, also Guang Yang's younger brother. Interviewed in Local City, 01/07/2011, 21/02/2012.

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(B) Documentary sources

Documents referred to come from two sources. The first are the official documents from both Central Government of China and local governments. In this case, these documents are referred to by the level of government and the year they were published. The second source is company documents. The company documents include information available on the company's website and the company documents that were not available to the public. The Chinese titles are given to ensure accuracy where appropriate.

For similar reasons of confidentiality, pseudonyms are used for city names and company names, detailed company websites are not listed.

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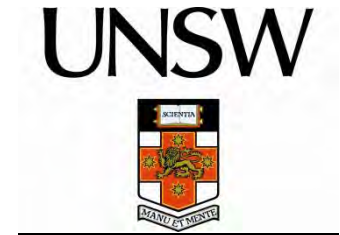
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Appendices

Appendix 1 Participant information sheet in English



School of Business, UNSW @ ADFA

Approval No

THE UNIVERSITY OF NEW SOUTH WALES

PARTICIPANT INFORMATION STATEMENT

Overcoming Barriers to Enterprise in New China: the story of property-development enterprise¹²

[Participant selection and purpose of study]

You are invited to participate in a study of Overcoming Barriers to Enterprise in New China: the story of property-development enterprise. I hope to learn two types of barriers: the barrier you faced at establishment, as well the corresponding strategies to overcome these barriers; and second, barrier and strategy during the development of your enterprise. You were selected as a possible participant in this study because your enterprise fulfils the case selection requirements identified for this research.

[Description of study and risks]

If you decide to participate, I will talk with you about barrier your enterprise has met and associated strategies have been utilised. The duration of the interview is very flexible, that means you can provide as much information as you want. You may also end the interview at any time. During the interview, you do not have to talk about

¹² The thesis title has been changed after the fieldwork in order to better reflect the content in this research.

anything you do not want to.

I will not tape the interview for the purpose of protection of confidentiality. I will take written notes to record your comments. However, I cannot possibly write fast enough to get it all down, so I may need to contact you later if there is any missing information.

[Confidentiality and disclosure of information]

Any information that is obtained in connection with this study and that can be identified with you will remain confidential and will be disclosed only with your permission, except as required by law. In any publication, information will be provided in such a way that you cannot be identified.

[Recompense to participants]

Complaints may be directed to the Ethics Secretariat, The University of New South Wales, SYDNEY 2052 AUSTRALIA (phone 9385 4234, fax 9385 6648, email ethics.sec@unsw.edu.au). Any complaint you make will be investigated promptly and you will be informed of the outcome.

[Feedback to participants]

I will transcribe the interview once it finishes. I will provide feedback to you by phone calls or sending interview transcript for your further comments. If there is missing information, I may also contact you for a second interview.

Would you agree to receive feedback about this study? ☐Yes ☐No

Would you agree to be contacted for further interview if needed? ☐Yes ☐No

Appendix 2 Participant information sheet in Chinese



澳大利亚新南威尔士大学(堪培拉校区)

商学院

Approval No

澳大利亚新南威尔士大学

受访者信息表

[受访者甄选及研究项目目标]

感谢您应邀参与“新中国企业如何克服障碍寻求发展：房地产开发企业”的研究项目。通过此项研究项目，我希望了解贵公司在创立和发展过程中所遇到的障碍，以及相应的应对措施。因贵公司符合此项研究项目对案例的选择条件，所以被选为受访者之一。

[研究项目概述]

如果您决定参与此项研究，在接下来的交谈中，我会向您咨询贵公司在创立和发展过程中所遇到的障碍及相关应对措施。谈话的时间非常灵活，您可以提供尽可能多的信息以供研究。同时，您可以随时终止此次访问。在访问的过程当中，您可以拒绝回答任何您认为不适宜的问题。

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[隐私保护及信息公开]

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如有不满之处，您可以联系澳大利亚新南威尔大学进行投诉。您的投诉将会被尽快处理，同时新南威尔士大学将会通知您处理结果。详细联系方式如下： Ethics Secretariat, The University of New South Wales, SYDNEY 2052 AUSTRALIA (phone 9385 4234, fax 9385 6648, email ethics.sec@unsw.edu.au).

[受访者信息反馈]

访问结束后，我将会对此次访问所收集到得信息进行整理，并会通过电话或是电邮的方式进行反馈。如果有遗失的信息，我将会联系您进行第二次访问。

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