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## A STRUCTURAL ANALYSIS OF THE CHINESE PATRIARCHAL FAMILY BUSINESS MODEL: WHAT HAPPENS IN THE CORRIDORS OF THE SHRINE?

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**Abstract.** The family business features a replica of the family model, carrying the DNA of its structural foundational principles that sow the seeds of the vision of its creator (the family head). They are nonetheless bound by several external factors that determine their growth path. As the market is a highly unstable environment, resilience in strategy is demanded to maintain enterprise survival and improve its performance. In the present research, we attempt, firstly, to display the findings of an analysis of small and medium-size Chinese organisations that sketches their characteristics, including the following elements: the style of the leader, decision-making style, leadership style, organisation structure, supervision, variables related to the manager and organisation ownership. Secondly, we delineate the impact of the implementation of a set of strategy configurations on Chinese business effectiveness. The research findings reveal a considerable impact of the aforementioned variables on Chinese SME effectiveness; they reflect a strong presence of the produce or perish leadership style, a predictable characteristic of enterprises led by males (with an effect estimated with 0.48) combined with the entrepreneurial type of leader that entails a strict mode of management (centralization) and subsequently influences business effectiveness. All these characteristics confirm the replication of the family management style within SMEs.

**Keywords:** *family business, small/medium-size enterprise, organisation characteristics, business effectiveness.*

**JEL Classification:** L25, D23, L26

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### INTRODUCTION

SMEs constitute an overwhelming majority of the enterprises in China and are a key to its economic development, as they represent 99.6 % of China's companies, and hold more than 70 % of the patents. They also contribute to more than 50 % of the taxes.

Family businesses, like other economic organisations, aim at improving their effectiveness and competitive position, as well as ensuring their continuity and survival. This prompted most researchers to focus extensively on the financing and

effectiveness aspects. The latter is closely related to the families that own them, leading the family and the organisation to be in a permanent and continuous interaction so that the family influences the policy of the organisation and its culture while the organisation affects the interests and goals of the family (Donnelley, 1964). This is what drove many researchers to study business management models of this type of organisation, since many of them attribute the success of family organisations to the family network where they originate, in addition to the personality traits that characterize the owner and the manager of the organisation. Therefore, the organisation becomes a mirror of the needs of the founder (owner), creates its culture, as the majority of these studies concluded that this type of institution would achieve better performance compared to its non-family counterpart. To maintain this distinguished level of effectiveness that allows these organisations to keep their survival and continuity, it requires the manager or owner of the organisation to search for advanced methods of management through the foresight of what will happen in the future and opportunities that serve the goals of the organisation and ways to prevent dangers.

The present research aims at testing a model containing parameters that influence SME effectiveness. These parameters include leadership style, decision making, influencing environment, entrepreneur type, and organisational structure. After testing its validity and identifying weaknesses, we attempt to provide ways that allow the family SMEs to hone their tools to be able to navigate and thrive through the market.

## 1. LITERATURE REVIEW

The survival and continuity of enterprises depend largely on the effectiveness of various operations carried out by these enterprises (Martin, McKelvie, & Lumpkin, 2016); this effectiveness is affected in turn by a combination of internal and external factors (Kerbouche, 2017).

To define the concept of the family business, some researchers rely on what has been called the criterion of ownership, where they consider that the organisation in which the same family owns a large share is a *family firm* (Donckels & Fröhlich, 1991). Recent definitions set many criteria for the identification of what constitutes a family firm. Smyrnios, Romano, & Tanewski (1997) come up with a clear notion: more than 50 % of the firm must be owned by the family, half of the shares is owned by one family, the business is run by one group of family members, senior management is occupied by the same family (Galván, Martínez, and Rahman, 2017).

The majority of definitions focused either on its components (such as ownership by family members, transfer to generations, governance, and management) or on its objectives (control, orientation, and behaviours). The consensus reached defines a family enterprise as a business built, managed, and sustained by members of one family who are themselves, shareholders, therein (Graves & Thomas, 2008).

As funding may represent a problem, the enterprise may accept the contribution of foreign members with a limited share (Barnes & Hershon, 1994; Lansberg,

Perrow, & Rogolsky, 1988), which makes it characterised by a simple and highly centralised organisational structure that reflects flexibility, speed in decision making and facing sudden changes in the environment, the controlling process remains the exclusive prerogative of family members whereby they preserve its familial aspect (Barry, 1975; Beckhard & Dyer Jr, 1983; Daily & Dollinger, 1992; Kepner, 1983).

Resources are available for the family business from their immediate environment; therefore, many organisations adopt what is labelled by (Hannan & Freeman, 1984) as population ecology to analyse the effects of the environment on organisational structure.

This approach relies on the *adaptation perspective* that encourages scanning the environment, snatching opportunities, and creating precautionary measures against possible threats and restructure the firm accordingly. The hierarchical aspect of family firms that entrusts decision making to the owner positions him at the forefront of the interactional space with the environment, every single decision, or strategy implemented must be calculated very well and the manager himself must exhibit resilience to be able to adapt to contingencies and ensure the organisation's sustainability and hence effectiveness.

Lu, Liang, Shan, and Liang (2015) report that government constraints on geographic spread influence negatively family business behaviour and performance, since in many cases Chinese family firms find themselves obliged to internationalise their business at very early stages of the enterprise age, which may decrease profitability despite the predicted increase in assets.

One of the foundational principles of the family business is *continuity* through inter-generational succession; the founder believes that the organisation is an asset to be transferred to his successors rather than a wealth for exploitation (Chami, 1997; Gasson & Errington, 1993). However, studies have shown that the succession of managers can lead to complex effects that make the survival and continuity of the organisation or its growth and expansion difficult since the manager seeks to achieve wealth, which allows him/her to provide financial security for him/her and his/her family (Morris, Miyasaki, Watters, & Coombes, 2006).

Additionally, the manager seeks to achieve continuous growth based on owning a well-structured and more sophisticated organisation that can adapt to the external environment (Gundry & Welsch, 2001). However, the rapid changes taking place in the environment require the adoption of an appropriate strategic option that allows the organisation to develop a clear vision and mission. The mission is defined as the primary determinant of the long-term goals of the organisation that are obtained through the adoption of work sessions and allocating the necessary resources to achieve goals (Chandler, 1962).

According to Li *et al.* (2015), family firms adopt strategies that can be described as safer and more favourable to their growth and sustainability. The rapid transformation that featured the Chinese market and the need for more productive bodies drove the government into supporting small businesses through fiscal relief, facilitating access to financial capital, ownership of land, and other strategies that allowed non-market transactions. As a result, family firms were inclined toward a *non-market strategy* that was not based on fierce competition and innovation (as in

the *market strategy*) at least until the appropriate grounding of the firm was completed. The strategy relies on secrecy that imposes the restriction of information to family members to maintain the firm internal stability and privacy, their benevolence in accomplishing tasks that could be unrelated to their area of expertise, and may be advantageous in the sense that the family “*can control the allocation of resources, the flow of important market information, and the cost structure*” (Li *et al.*, 2015).

However, a non-market strategy may directly influence effectiveness leading the business owner to sacrifice highly talented workforce, quality production, and competitiveness. In addition, social capital acquired through networking and political connections is proved to be a destructive capital that induces the stagnation of production (Huang, Li, & Zhang, 2019; Wei, 2013).

A more detailed overview of strategy types is provided by Miles and Snows (1978); they point out that there are essentially four organisation strategy types: *Defenders, Analysers, Prospectors, and Reactors*. Their model studies, first, how the organisation deals with the market and, second, it refers to the techniques and processes used in production and services, and the last field is the organisation’s attempt to coordinate and implement strategies, also called the administrative field.

The prospector model describes businesses that seek innovation and development; they are most of the time ahead of competitors in terms of products and objectives but may fall into the trap of huge failure if they miscalculate the prospects. The defender generally represents a fully-grown company that has already established a position in the market and seeks to protect it. In the analyser type, they have a glimpse of the market demand and try to meet them by improving the creation of other companies (Miles, Snow, Meyer, & Coleman Jr, 1978). Chinese SMEs fall within this category as they aim to ensure a stable position among big companies. The reactor type does not have a clear plan for the business; it tries to catch up with the business environment but is truly lagging (Lin, Tsai, & Wu, 2014).

Miles and Snow (1978) found out that every type could be distinguished from others in terms of its interaction pattern with the market and the subsequent adjustments in technology, structure, and process.

Researchers have concluded that the success of SMEs is mainly determined by the familial structure that characterises them as well as the leader type. These aspects have their roots in the Chinese culture that is imbued to a large extent with Confucius’s philosophy that positions the family at the nucleus of society and the economy. It is, therefore, an ideology that considers the family as the pivot of Chinese organisations.

As previously mentioned, most small and medium-sized enterprises are characterised by their familial nature; they are composed of family members who represent their core, they have a small organisational structure and unofficial frame for information transfer in addition to centralised decision making and an *authoritative* leadership style.

The head of the household is often the leader therein as s/he possesses the appropriate ability and authority to govern the organisation. As decision making and auditing are highly centralised since the Chinese family is conservative and

allocates very little trust to strangers, leadership is automatically relegated to family members (Chen & Yu, 2012).

The Chinese entrepreneur is an opportunity hunter with a financial target, s/he can turn an opportunity into a business within days or even hours despite the high risk it may carry (Yeung, 2000).

A priority for the Chinese private entrepreneur is increasing profit (Li, Meng, Wang, & Zhou, 2008); the Chinese entrepreneur seeks independence from the bank or any other type of loan and limited financial resources to the family (Pistrui, Huang, Oksoy, Jing, & Welsch, 2001). This mindset ensures the continuation and stability of the organisation in the market. These traits are therefore in conformity with the second model presented by Marchesnay & Julien (1996) that stresses the existence of growth, independence, and continuation as determining traits of the Chinese entrepreneur. Additionally, the manager's education and experience are positively correlated with organisational efficiency (Huber, 1991).

The decision-making process is usually centralised, restricted to the owner, and has a top-down effect (i.e., non-negotiable). It carries a personal perspective and lacks objectivity (Davies & Ma, 2003). The prevailing feature of the decision-making procedure within Chinese small and medium-size organisations is their reliance on the entrepreneur's intuition or his/her experience in the market. In other words, they follow the entrepreneurial style characterised by an active search for new winning opportunities. As fast growth is a priority for the business owner, his/her decisions are audacious and can be tremendously effective in boosting the whole organisation's performance (Li, & Zuo, 2020).

Decision making in this model does not involve managers of other sections, only members of the family have the right to do so; this reflects the familial character that dominates all aspects of the business to such a degree that the financial state of the organisation is confidential and considered a family issue.

Blake & Mouton (1964) have identified six key elements of administrative leadership, which are conflict resolution, an initiative in carrying out tasks, access to information, directing subordinates, and providing them with information, decision making, and feedback (Cai, Fink, & Walker, 2019; Cho, Yi, & Choi, 2018; Ling, Zhang, & Wong, 2020). This theory is predicated upon the idea that the leader is driven by his/her expectations and assumptions in all circumstances and any position drawing on his experience, personality, and the information available. These insights guide the behaviour of the leader and end up anchored in his/her personality traits until becoming a model of leadership. The authors consider that these hypotheses are subject to alterations, especially when the person has a new experience to examine and compare his/her actions.

The leadership pattern utilised within Chinese family businesses is without a doubt authoritative (produce or perish). The owner has absolute power over managing all sections and works to ensure the continuation of this pattern through supervising information transfer within it and passes them exclusively to the employees s/he trusts. This leadership style simulates the family model since the owner employs similar techniques in management and conflict resolution.

Being a family property, *centralisation* is a key aspect of this type of business. Despite the possibility of growth in size and development of a multinational aspect,

owners retain limited access to power and supervision to family members (Weidenbaum, 1996).

What is considered a strength for Chinese small business owners may also represent a weakness. Restriction of the organisational basis on centralisation hinders the company growth and expansion.

Additionally, sectional divisions such as market research, external relations, research, and development are practically non-existent due to the heavy focus on production, sales, and provision of services. Therefore, there are no set of regulations that structure job positions and roles within.

Effective management of the family property is incomplete for the Chinese owner without *supervision*, which is allocated to a family member. According to Chen, the main role of supervision is the translation of the organisation objectives into tangible results. This is achieved through comparing results with previously set objectives and taking corrective measures (Chen, 1995).

Objectives and results are a façade in small and medium-size Chinese organisations. The real measure of performance revolves around employee loyalty to the owner. It is often the case that Chinese business owners use illicit rewarding to devoted employees, on the contrary, those who do not, are sanctioned by salary reduction.

*The regulatory environment:* Government regulations have the objective of ensuring a safe and sane environment and prevent any potential losses or dangers (Tang, & Hull, 2011). In the case of family businesses, this may hinder entering new experiences and adopting hybrid strategies (Busenitz, Gomez, & Spencer, 2000). Local laws have a restrictive aspect that limits SMEs from entering a market-oriented system. This reflects the opposition of interest and orientation among Chinese SMEs and governments (Hoskisson, Eden, Lau, & Wright, 2000; Li, & Atuahene-Gima, 2001). Environmental constraints are often believed to have a negative impact on organisational efficiency (Schlevogt, 2002) due to high inflation rates, lack of infrastructure, political stability and lack of trained workforce.

As to the laws and regulations, Schlevogt (2002) evaluates their impact on organisational efficiency as positive although it does not stand as a representative of the model he puts forth.

*The cognitive environment:* The entrepreneurial mindset is not yet well-established within the Chinese milieu, less than 20 % of colleges have entrepreneurship training and, therefore, emergent entrepreneurs have limited background knowledge about navigating through the market and prefer to integrate safer strategies (Tang, & Hull, 2011).

*The normative environment:* Chinese society is nowadays turned between traditional norms and the dragging waves of modernity. SMEs, therefore, face a complex situation where the main values of a family firm (trust, altruism, and collectivity) are being eroded by the requirements of the market, which impacts negatively their plans to upgrade to market-oriented strategies (Zhang *et al.*, 2014). All of these limitations stand in the way of Chinese businesses in adopting hybrid strategies, even those that rely on cost-control strategies are constrained by the lack of technology and a brand name (Wu, & Pangarkar, 2006).

The family is pivotal in the establishment and management of the Chinese organisation. The father as the owner of the organisation perceives it as an exclusive property of the family. It, thus, excludes the intrusion of any foreigner from participating in it except in cases of urging necessity (Huang, 2001).

To maintain its independence from external sources, a Chinese organisation must be capable of self-provision (financial and other resources) to remain a family property, which may have negative consequences on its growth in the long term.

## 2. METHODOLOGY

The quantitative aspect of the present research requires the use of the survey. As the target population was distributed across different areas of the country, the questionnaire was a convenient tool to collect a large volume of data. The survey was conducted through 218 small and medium-sized enterprises located in China, especially Beijing and Shanghai. These companies were randomly selected in different sectors. The questionnaire forms were distributed to CEOs of these firms. 156 completed forms were returned (approximately 7 % of the total number distributed). The family business was identified through the question (What is the percentage of family members who work within the institution) as well (the percentage of family ownership of shares) and through the process of liquidating forms. Through the screening process, we excluded 33 and accepted 123 firms fulfilling the condition were identified. The number of companies accepted represents 56 % and is a good percentage in this type of study (Zahra, 2005).

The questionnaire was divided into seven sections that represent six independent variables (strategic choice, organisational structure, decision making, type of entrepreneur, leadership style, and environment) and one dependent variable represented by effectiveness.

To elucidate the influence of independent variables on organisational effectiveness, we used two methods. The first was to identify the sub-variables for each independent variable using the coefficient of variance, and the second method was the smart PLS model.

To operationalise the organisational structure, three dimensions were adopted (centralisation, formalisation, and specialisation). The degree of authority to make decisions that affect the organisation is located at the top of the management hierarchy. Formalisation degree concerns the rules and procedures written and the specialisation degree deals with the tasks that are distributed according to specialisation. Items are crafted from Aston centralisation scale (Pugh, and Hickson, 1970; Pugh, and Hickson, 1976), Aston formalisation scale (Inkson, Pugh, and Hickson, 1970) 5-point scale (Pugh, and Hickson, 1976), Aston specialisation 5-scale (Inkson, Pugh, and Hickson, 1970; Pugh, and Hickson, 1976). The coefficient of variation reveals that the centralisation structure is most commonly used in these SMEs.

Using the coefficient of variance, we determined the most important independent variables in Chinese family enterprises. In order to know the strategy pursued by these firms, four strategies were identified by Milles & Snow: the Defender Strategy, Prospector Strategy, Analyser Strategy, and Reactor Strategy

(measures were adapted from Snow, & Hrebiniak, 1980; Stevens, & McGowan, 1983). Each strategy includes a set of items and we concluded that the analysed strategy was the most prevalent one among Chinese family enterprises.

By the same token, to determine the decision-making process, Mintzberg's (1973) model was used. It determines the decision-making process by means of Adaptive Entrepreneurial Planning and the results show that the entrepreneurial factor is the most common one in these enterprises.

For *the entrepreneur type*, we relied on *Marchesnay & Julien's study (1996)* where the major goals of the entrepreneur revolve around the ideas of sustainability, independence, and growth which are the three aspirations that distinguish the different types of entrepreneurs (SIG and GAS). Using the coefficient of variance, the results showed that the Chinese entrepreneur belonged to the first type, i.e., the entrepreneur preferring sustainability, independence, and growth (PIG).

To measure the leadership style, the study relied on Blake & Mouton's, managerial grid (1964); the findings revealed the existence of conflict within the enterprise mainly due to the fact that the manager or owner used the perish leadership style.

Using the smart PLS programme, we tested the following hypotheses:

*H1: There is a significant relationship between the analyser strategy and effectiveness.*

*H2: There is a significant relationship between centralisation structure and effectiveness.*

*H3: There is a significant relationship between decision making and effectiveness.*

*H4: There is a relationship between the type of the entrepreneur and enterprise effectiveness.*

*H5: There is an inverse relation between environment-specific constraints and organisational effectiveness.*

*H6: There is a significant relationship between leadership style and effectiveness.*

### 3. RESULTS & ANALYSIS

#### 3.1. Characteristics of Chinese Family SMEs

Table 1 is designed to display the main sub-variables pertaining to strategy choice, organisational structure, decision making, entrepreneur type, and leadership style, using the coefficient of variance. As to the environment variable (its items are represented as internal, e.g., insufficient capital, and as external constraints, e.g., government regulations), it is found to have a negative impact that hinders SME growth and prosperity. It is therefore not mentioned in the Table 1.



**Table 1.** Coefficient of Variance of Research Variables

| Variables                       | Items   | Mean  | SD    | C.V   | Ranking |
|---------------------------------|---|-------|-------|-------|---------|
| <b>Strategy Choice</b>          | Defender Strategy   | 2.972 | 1.368 | 0.46  | 3       |
|                                 | Prospector Strategy   | 3.756 | 1.351 | 0.36  | 2       |
|                                 | Analyser Strategy   | 3.939 | 0.975 | 0.248 | 1       |
|                                 | Reactor Strategy  | 2.102 | 1.217 | 0.579 | 4       |
| <b>Organisational Structure</b> | Formalisation Degree  | 2.861 | 1.299 | 0.454 | 3       |
|                                 | Centralisation Degree   | 3.897 | 1.282 | 0.329 | 1       |
|                                 | Specialisation Degree   | 3.485 | 1.203 | 0.345 | 2       |
| <b>Decision making</b>          | Adaptive  | 2.683 | 1.543 | 0.575 | 3       |
|                                 | Entrepreneurial   | 4.146 | 0.846 | 0.204 | 1       |
|                                 | Planning  | 2.488 | 1.351 | 0.543 | 2       |
| <b>Entrepreneur type</b>        | Maximising profit   | 3.67  | 1.501 | 0.4   | 3       |
|                                 | Achieving sales growth and multiply returns   |       |       |       |         |
|                                 | Refusal of partnering with members outside the family circle  | 3.72  | 1.409 | 0.37  | 2       |
|                                 | Long-term investment in the same industrial activity  | 4.34  | 1.122 | 0.25  | 1       |
| <b>Leadership style</b>         | Using sanctions when conflicts arise  | 4.43  | 0.95  | 0.21  | 1       |
|                                 | Clearly describing the work procedure but imposing his/her will on subordinates                       | 4.52  | 0.97  | 0,21  | 1       |
|                                 | Searching for adequate information about employees for the sake of obtaining high productivity levels | 4.39  | 0.96  | 0.22  | 1       |

Source: The authors' research

### 3.1.1. Strategy Choice

This model was selected as it was most suitable for this type of study (Bouhelal, & Kerbouche, 2016). Table 1 above demonstrates the classification of strategic items according to the coefficient of variation.

To make a hierarchical display of strategic choice variables, the coefficient of variation was devised (Table 1 clearly illustrates the difference). According to Table 1, we note that the *Analyser Strategy* topped the list with a coefficient of variation equal (0.248), followed by the *Prospector Strategy* with a coefficient of variation equal to (0.36). This is coherent with the case of organisations under study, as we find that 82.9 % of them are at an initial stage of growth while the remaining 17.1 % are rocketing. Also, this strategy fits the management style of SMEs. As reported by Milles & Snow, it is marked by its centralised aspect and caution from the external environment due to SME inability to compete. Subsequently, prior to

starting new businesses, they attempt to increase their chances of profitability, which could be considered a strength in SMEs that positively impacts organisational effectiveness.

### *3.1.2. Organisational Structure*

Relying on the coefficients of variation of the three dimensions, it is clear that the centralisation structure came first with a coefficient of variation equal to (0.32). This is an indicator that this dimension has priority for the organisations under scrutiny in this research. The second place is taken by the formalisation structure with a coefficient of variation equal to (0.34), which is followed by the specialisation degree with a coefficient of variation estimated at (0.41).

All in all, the findings of organisational structure reveal a significant level of compatibility between the organisational structure adopted in Chinese SMEs and their leadership style and decision-making type.

### *3.1.3. Decision Making*

As shown in Table 2, the coefficient of variation was also used to classify the importance of decision-making styles. Entrepreneurial style was found to be the dominant style in Chinese SMEs (cof = 0.204),

Planning style was the second most used style (cof = 0.543), and the last place was taken by the adaptive style with a coefficient of variation equal to 0.575. These findings are compatible with this type of organisation where the organisational structure is characterised by its small size and, logically, the owner is the decision-maker and manager and exerts a considerable influence on his/her organisation.

### *3.1.4. Chinese Entrepreneur Type*

We measured this variable using the goal axis. The objective of the questions was to identify the type of Chinese entrepreneur relying on classification by Julien and Marchesnay (1996), who proposed three main socio-economic aspirations in the entrepreneur (sustainability, independence, and growth) allowing us to identify two logics of action: a logic of patrimonial action and a logic of entrepreneurial action.

The SIG (Sustainability-Independence-Growth) entrepreneur finds him/herself in a logic of patrimonial action or logic of accumulation.

In this perspective, the entrepreneur gives priority to the sustainability of his/her business, s/he wishes above all to accumulate wealth. S/he also wishes to preserve the patrimonial independence and, therefore, is ready to refuse associates, even external loans, s/he is also wary of the outsourcing of activities and favours material investments. Finally, the growth of the company must not harm the sustainability and independence of the assets and it is only in this case that it can be accepted. The GAS (Growth-Autonomy-Sustainability) entrepreneur finds him/herself in a logic of entrepreneurial action, a logic of capital appreciation. Here, the entrepreneur favours high growth and risky activities, s/he feels a great need for

autonomy as far as decision making is concerned, s/he does not worry about the independence of capital and the sustainability of his/her business is not a priority for him/her. The GAP entrepreneur is in evolving and expanding activities and shows a strong preference for intangible investments.

To quantify the entrepreneur type items, we used the coefficient of variation and that through the arithmetic mean and standard deviation. Table 2 displays the item of continuity holding the first positing where the coefficient of variation was estimated as (0.25). This indicates that the studied sample gives more importance to this item compared to others. The item of growth ranked second with a coefficient of variation equal to (0.37), while independence ranked third with a coefficient of variation estimated as (0.40). According to Julien & Marchesnay (1996), these indicators allow attributing the Chinese entrepreneur to the first type that exhibits a strong inclination toward independence, desire for continuity, and growth.

### *3.1.5. Leadership Style*

To study the ways of governing within these organisations, we devised the leadership style variable represented by the following dimensions: conflict management, manager personality, and access to information adapted from the Managerial Grid of Blake & Mouton (1964) providing five types (Produce or Perish Leadership, Country Club Leadership, Team Type of Leadership, Impoverished Leadership and Middle-of-the-Road Leadership).

This variable was measured using the arithmetic mean by testing the five leadership styles (displayed in the table above). The perish leadership style ranked first for conflict management, manager personality, and information access. This largely corresponds to the decision-making style within these enterprises and the fact that the Chinese owner is firm in his/her decisions, has access to a wide range of cheap workforce in China, which is why this work environment is practically facilitating the exercise and success of such a style.

## **4. MEASUREMENT MODEL ANALYSIS**

### **4.1. Convergent Validity**

The evaluation of the convergent validity of reflective constructs is usually ascertained by examining the factor loading (the outer loading) of the indicators, composite reliability and average variance extracted (AVE). In our suggested model, the factor loading was all higher than 0.708; the composite reliabilities were also above 0.7 and the AVE of all constructs was higher than 0.5 as suggested by Hair Jr, Hult, Ringle, & Sarstedt (2016). Table 2 shows various indicators of convergent validity.

**Table 2.** Results of Measurement Model Convergent Validity

| Constructs         | Composite Reliability | Average Variance Extracted |
|--------------------|-----------------------|----------------------------|
| Analysers Strategy | 0.99                  | 0.962                      |
| Centralisation     | 0.993                 | 0.968                      |
| Decision making    | 1                     | 1                          |
| Effectiveness      | 0.97                  | 0.886                      |
| Entrepreneur type  | 0.947                 | 0.816                      |
| Environment        | 0.998                 | 0.963                      |
| Leadership style   | 0.979                 | 0.762                      |

Source: The authors' research

#### 4.1.1. Discriminant Validity

To measure discriminant validity, we relied on two measures. We, first, utilised cross-loadings to evaluate the discriminant validity of the indicators. Thus, in our model, we found that the associated construct was greater than any of its cross-loadings with other constructs.

#### Fornell-Larcker Criterion

**Table 3.** Latent Variable Correlation

| Constructs         | Analysers Strategy | Centralisation | Decision making | Effectiveness | Entrepreneur type | Environment  | Leadership style |
|--------------------|--------------------|----------------|-----------------|---------------|-------------------|--------------|------------------|
| Analysers Strategy | <b>0.981</b>       |                |                 |               |                   |              |                  |
| Centralisation     | 0.966              | <b>0.984</b>   |                 |               |                   |              |                  |
| Decision making    | 0.093              | 0.099          | <b>1</b>        |               |                   |              |                  |
| Effectiveness      | 0.155              | 0.149          | 0.781           | <b>0.931</b>  |                   |              |                  |
| Entrepreneur type  | 0.183              | 0.171          | 0.789           | 0.906         | <b>0.904</b>      |              |                  |
| Environment        | 0.975              | 0.982          | 0.085           | 0.148         | 0.183             | <b>0.981</b> |                  |
| Leadership style   | -0.24              | -0.212         | -0.74           | -0.92         | -0.922            | -0.232       | <b>0.873</b>     |

Source: The authors' research

Note: The value in the boldface is the square root of AVE

Table 3 shows that the average variance extracted was higher than the correlation coefficient of the construct. These results indicated that the measurement satisfied discriminant validity.

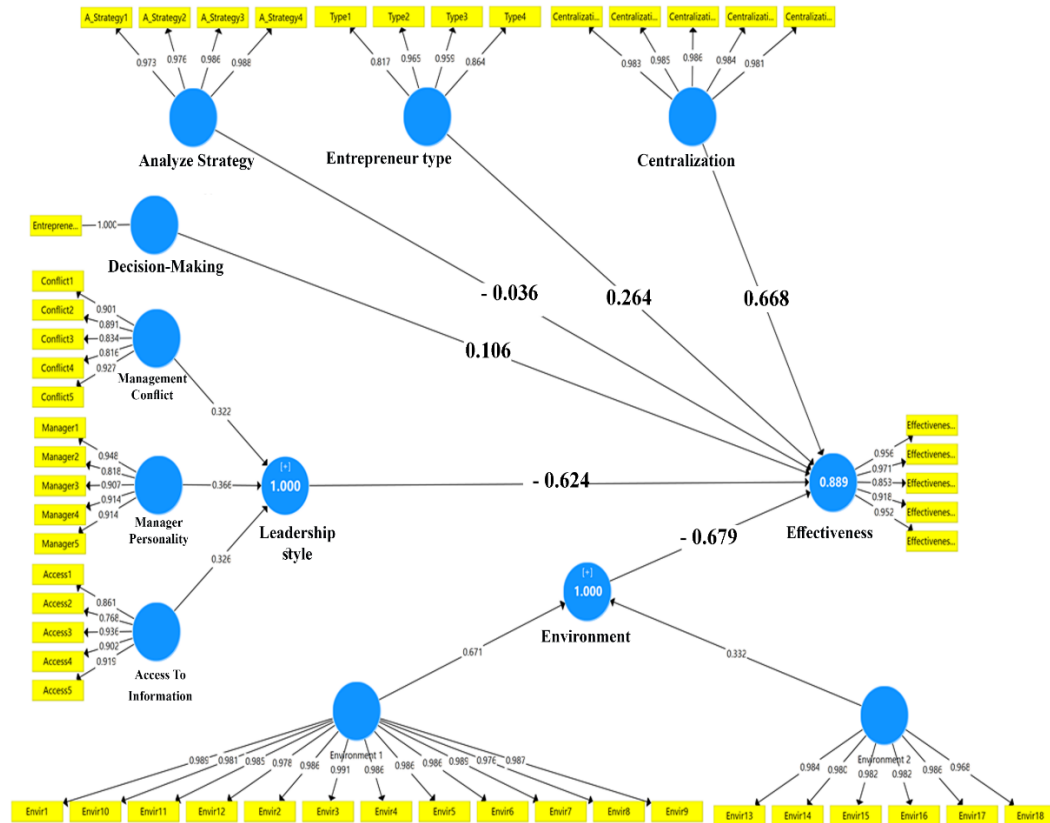


Fig. 1. Measurement model.

## 4.2. Assessment of Structural Model

### 4.2.1. R Squared

R squared refers to the level of variation in the dependent variable that is explained by one or more predictor variables (Elliott, & Woodward, 2007; Hair Jr. *et al.*, 2016). According to Table 4, we note that the value of R squared is 0.889 and this means that the independent variables that are inherent in the strategy choice, organisational structure, entrepreneur type, decision making, and leadership style represent the model by 88 % and this value is very strong. We refer to the study by Chin (1998) where he claims that R squared value of 0.67, 0.33, and 0.19 in PLS-SEM can be considered high, moderate, and weak, respectively. In our study (as shown in Table 4), the value of R<sup>2</sup> is greater than 0.67, which means the coefficient of determination R squared is very high.

**Table 4.** Coefficient of Determination  $R$  Squared of the Endogenous Latent Variable

| Construct                    | $R$ Square | Result |
|------------------------------|------------|--------|
| Organisational effectiveness | 0.889      | High   |

Source: The authors' research

#### 4.2.2. Predictive Relevance $Q^2$

Stone (1974) and Geisser (1975) utilised a technique of using  $R$  squared as a criterion for predictive relevance. This technique is a compilation of cross-validation and function that fit with the perspective that the prediction of observables or potential observables is more relevant than the estimation of what is often artificial construct-parameters (Geisser, 1975). The sample reuse technique was decidedly found to be perfectly compatible with the modelling approach of PLS (Wold, 1982, p. 30).

**Table 5.** Construct Cross-Validated Redundancy Total  $Q^2$ 

| Constructs         | SSO      | SSE     | $Q^2 (=1-SSE/SSO)$ |
|--------------------|----------|---------|--------------------|
| Analysers Strategy | 492.00   | 492.000 |                    |
| Centralisation     | 615.000  | 615.000 |                    |
| Decision making    | 123.000  | 123.000 |                    |
| Effectiveness      | 615.000  | 147.546 | 0.760              |
| Entrepreneur type  | 492.000  | 492.000 |                    |
| Environment        | 2214.000 | 94.593  | 0.957              |
| Leadership style   | 1845.000 | 450.851 | 0.756              |

Source: The authors' research

#### 4.2.3. Assessment of Effect Size $f^2$

Effect size indicates the relative effect of particular exogenous latent variables on endogenous latent variables using changes in  $R$  squared (Chin, 1998).

**Table 6.**  $f$  Square

| Constructs         | Effectiveness | Results           |
|--------------------|---------------|-------------------|
| Analysers Strategy | 0.001         | Small effect size |
| Centralisation     | 0.524         | Large effect size |
| Decision making    | 0.035         | Small effect size |
| Entrepreneur type  | 0.078         | Small effect size |
| Environment        | 0.461         | Large effect size |
| Leadership style   | 0.483         | Large effect size |

Source: The authors' research

In Table 6, we notice that the value of  $f^2$  for each analysed strategy, decision making, entrepreneur type was 0.001, 0.035 and 0.078, respectively, which meant that these variables had a small effect size on effectiveness. Regarding centralisation, leadership style, and environment,  $f^2$  was 0.524, 0.483, 0.461, respectively, which meant that these variables had a large effect on effectiveness. Referring to the model above, we note that the value of the influence of the central structure on effectiveness reached 0.668, meaning that a change in one unit in the structure would lead to an increase in organisational effectiveness by 66.8 %. This means that this type of organisational structure has a major impact on the effectiveness of Chinese small and medium-sized enterprises; in other words, if the manager or owner wants to increase the effectiveness of an organisation, s/he should adopt the centralisation structure. Even the entrepreneur type had an acceptable effect, as the value of the impact of this variable on the effectiveness was 0.264, meaning that a single unit change in the entrepreneur type would lead to an increase in the organisation's effectiveness by 26 %. Concerning the decision-making variable, the effect value reached 0.106. We consider this value to possess small effect that means that the decision-makers have not observed impact on effectiveness, but still the entrepreneurial style has a positive effect on effectiveness. Considering the leadership type, which is perish style (authoritarian), and despite its fit with the centralisation structure, this variable negatively affects the effectiveness of the organisation, as the impact value reached  $-0.624$ , meaning that the change and increase in the perish style by one unit would lead to a decrease in effectiveness by 62.4 %. This means that the Chinese employee does not prefer this type of leadership style, so that it will have a negative impact on his/her performance and thus on effectiveness. The same situation is with the environment, as the latter negatively affects the effectiveness of Chinese enterprises and is considered an obstacle to growth and development. The impact value reached  $-0.679$  (a very large value).

#### 4.2.4. Hypothesis Testing

**Table 7.** Path Coefficients

| Hypothesis | Relationship                                 | Original Sample (O) | Standard Deviation (STDEV) | T Statistics (O/STDEV) | P Values     | Decision    |
|------------|--|---------------------|----------------------------|------------------------|--------------|-------------|
| H1         | <b>Analysed Strategy -&gt; Effectiveness</b> | -0.036              | 0.138                      | 0.261                  | <b>0.794</b> | Rejected*   |
| H2         | <b>Centralisation -&gt; Effectiveness</b>    | 0.668               | 0.237                      | 2.821                  | <b>0.005</b> | Supported** |
| H3         | <b>Decision making -&gt; Effectiveness</b>   | 0.106               | 0.074                      | 1.448                  | <b>0.148</b> | Rejected**  |
| H4         | <b>Entrepreneur type -&gt; Effectiveness</b> | 0.264               | 0.098                      | 2.682                  | <b>0.008</b> | Supported   |
| H5         | <b>Environment -&gt; Effectiveness</b>       | -0.679              | 0.264                      | 2.572                  | <b>0.01</b>  | Supported   |
| H6         | <b>Leadership style -&gt; Effectiveness</b>  | -0.624              | 0.129                      | 4.828                  | <b>0</b>     | Supported   |

Significant at  $P^{**} \leq 0.01$ ,  $P^* < 0.05$  Source: The authors' research

***H1: There is a significant relationship between the analyser strategy and effectiveness.***

In a study conducted by Schlevogt (1998), which involved a comparative analysis of private and public sector organisations, the strategy was taken as a subject of investigation. It revealed a considerable salience of analytical and prospector strategies that exist in complete conformity with the dynamicity of the business environment as well as the driving factors of competitiveness, creativity, and innovation. This confirms the study of Luo & Park (2001), which suggests that compared with prospector and defender strategies, analyser strategy fits the institutional environment of China best.

In our study, we found that the analyser strategy was the one adopted by Chinese SMEs, and this result was consistent with previous studies. However, there is no relationship between the analyser strategy and effectiveness, meaning that there is no effect of this strategy on the effectiveness of Chinese enterprises. Tang *et al.* (2011) found that although classic SME research conducted in Western countries clearly stated that SMEs needed to keep strategy pure, studies in China confirmed the necessity of hybrid strategy configuration for better protection and resilience with the international market.

***H2: There is a significant relationship between centralisation structure and effectiveness.***

As referred to in the theoretical section of this paper, most Chinese SMEs are family property, so centralisation is a key aspect within this type of business. The driving principle remains the restriction of key decision-making procedures, management, and ownership among family members. The deep cultural and traditional impact of Chinese (and especially Confucian) teachings and the patriarchal aspect of the Chinese family permeate different aspects of their businesses which make them difficult to be altered even if enterprises grow in size.

***H3: There is a significant relationship between decision making and effectiveness.***

The decision-making process is often characterised by centralisation directed by the owner and there is no room for discussion because decisions made by the owner are often personal and do not relate to objectives. The decision-making process within Chinese SMEs is mostly decisions based on the owner's intuition or experience. In other words, they are decisions that follow the entrepreneurial method, which is characterised by active search for great new opportunities, swift and bold decisions, despite the uncertainty of their results.

Decision-maker in the sample under study exhibits great influence and authority, considers rapid growth as the primary goal of the enterprise. The owner also makes these decisions without involving the rest of the heads of departments and other branches within the enterprise so that the heads who do not belong to family members cannot in any way participate in the decision-making process. This



process is a matter of family affairs, and the financial situation of Chinese enterprises is one of the family's secrets.

***H4: There is a relationship between the type of entrepreneur and enterprise effectiveness.***

The findings reveal the existence of a strong impact of the Chinese leader's character on business effectiveness. Given that s/he is an opportunity hunter, s/he can build a business from very simple ideas and grows it independently from bank loans and external partnerships. This is compatible with previously conducted research that identified the three main characteristics of the Chinese entrepreneur: independence, growth, and stability.

***H5: There is an inverse relation between environment-specific constraints and organisational effectiveness.***

The negative influence of the environment stems from the lack of compatibility between Chinese SMEs and the environment where they exist. The government regulations keep these enterprises from geographic expansion and adoption of hybrid market strategies despite efforts for loosening the boundaries. The restrictions may also be due to the knowledge gap among emergent Chinese entrepreneurs who have very poor training in this domain and little knowledge about the business environment. Another factor is relegated to the conflicting modernising and traditional waves; modernity opens the gate of the market for innovation, competition, and openness but is full of corruption and unethical practices that are in contrast with the Chinese family traditional teachings that direct the firm into more altruistic principles, trust, and confidentiality.

***H6: There is a significant relationship between leadership style and effectiveness.***

The research findings prove that the leadership style that characterises these enterprises is authoritarian; this authority is directly related to ownership, i.e., the owner has absolute rule within the SME. Another reason for these findings is linked to the gender of the executives who are mainly males and eventually apply a masculinist approach in leadership.

For this method to remain functional within the institution, the Chinese manager or owner remains the observer of the information, especially the financial information thereof. Information circulates to the rest of the branches according to the trust that the owner or manager gives to the rest of the employees. This leadership style often causes the owner to manage conflicts inside his/her enterprise in authoritarian ways (using sanctions), as owners follow this approach or method, they run their businesses on the same basis that they run their families.

#### 4.2.5. Goodness of Fit (GoF)

The usability of the GoF lies in its ability to describe the study model at both levels, specifically measurement and structural model emphasising the performance of the model (Chin, 2010; Henseler, & Sarstedt, 2013). The calculation formula of GoF is as follows:

$$GoF = \sqrt{R^2 \times AVE}.$$

In our model, GoF equals to  $\sqrt{0.889 \times 0.905}$ , GoF = 0.896. The criteria of GoF to determine whether the GoF value does not fit, is small, medium, or large to be considered as a global valid PLS model have been given by Wetzels, Odekerken-Schröder, & Van Oppen (2009). Table 8 presents these criteria.

**Table 8.** Criteria of GoF

|                              |               |
|------------------------------|---------------|
| <b>GoF less than 0.1</b>     | <b>No Fit</b> |
| <b>GoF between 0.1–0.25</b>  | Small         |
| <b>GoF between 0.25–0.36</b> | Medium        |
| <b>Above 0.36</b>            | Large         |

According to the table above and the GoF value of our model (0.896), it can be concluded that the GoF model of this study is significantly large to be accounted for as a valid PLS model.

## CONCLUSION

The Chinese industry is governed with an arsenal of family businesses that managed to impose their existence even within the international market.

The present research has been motivated by a need to delve deeper within the structure of Chinese family businesses, to identify the main principles that support them, and determine their impact on the effectiveness of these enterprises.

Within the framework of the research, we have managed, during the first stage, to discern the main elements fuelling Chinese SMEs represented in the entrepreneurial style adopted by the Chinese business owner and his/her authoritarian leadership style. These two characteristics are tightly related to the centralised structure of the enterprise and the restriction of decision-making procedures on the owner and close family members.

The second stage of the research has been dedicated to identifying areas of correlation between these characteristics and business effectiveness. The findings have shown a positive correlation among the independent variables (entrepreneur type, decision making, and centralisation) and business effectiveness. On the other hand, the environment variable has been found to have a negative impact due to its instability and government restrictions, high inflation rates, the weakness of SME infrastructure, the rigid work conditions taken as an advantage by employers (which explains the negative relation between the leadership style and effectiveness).

Moreover, laws preventing monopolization of markets are very often breached by large enterprises that dump the market with their products leading in many instances to destructive consequences on SMEs. The negative correlation is also explained by the environmental laws imposing taxes on the industrial waste that directly impacts SME revenues.

Leadership style has been found to have a negative correlation with effectiveness, which is partly related to the strict conduct from the part of the owner and the availability of cheap workforce that facilitates the continuation of production with very low labour standards.

This requires more resilience and strategy configuration among Chinese family business owners because the character of the family business that is at times in opposition with the market requirements imposes constraints that may cost them an arm and a leg.

It is, therefore, important that future research will focus on human resource management and ways that the Chinese workforce can be trained to incorporate the values of the enterprise they work for. This is conducive to the necessity of improving the leadership style for higher levels of performance and satisfaction between employees and managers.

The categorisation of strategies requires more honing for great effectiveness in empirical research to identify the appropriate strategy for SMEs.

Policy implications are also required to open new gateways for local investment and openness for collaboration among family businesses through the enactment of laws and facilitating regulations.

Foreign family businesses may also benefit from the Chinese experience, adapt to the local cultural and economic environment, and adopt successful strategies that are likely to revitalise the economy, especially in developing countries.

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