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Developing an Instrument for Assessing Chinese Business Strategy Orientation from Western Theoretical Underpinning

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ABSTRACT

China's strong economic prospects and trade complementarity has driven the rapidly expanding commercial relationship with many countries worldwide since gaining World Trade Organisation (WTO) membership, underpinned by many years of programmed economic reform and development. Nevertheless, the globalisation of business has accentuated the difference in business strategy orientation between Chinese and Western organisations, which makes it imperative to develop an instrument to evaluate the business strategy orientation in the Chinese business context. This study explains the development of such an instrument for the Chinese operational context and the results suggest that the Chinese business strategy orientation is likely to differ significantly from the Western framework. Implications for refining the instrument are discussed.

INTRODUCTION

Entering the WTO has accelerated China's integration towards the global economy. Some of the most visible achievements since China attained WTO membership have been the considerable reduction in fiscal barriers and continuing progression towards a market dominated economy (Chen 2005, Zhu 2005). A vision for deepening reform has facilitated access for foreign direct investments, as well as extensively increasing transparency and certainty in the trading and business environment (Editor's Word 2005a). Even prior to WTO status the People's Republic of China (PRC) had installed reform initiatives. As a result of these economic initiatives, many economists have predicted that China's huge population; increasing openness; and its annual projection of a robust growth of around seven per cent in the next five to ten years roughly doubling of the size of the Chinese economy by the start of the 2010s would make China the world's second largest economy in 2020 (Pantichpakdi & Clifford 2002). Consequently, China, as a major global consumer, producer and trader in the primary industrial sectors, has continued to restructure and consolidate the minerals and energy sector; gradually relaxed restrictions on foreign agribusiness investment; and further expanded and upgraded key infrastructure facilities. Such tangible progress is dependent upon private foreign capital, equipment and services expertise (Economic Analytical Unit 2002).

As a result of the reinvigorated reform initiatives, China has absorbed even more foreign invested capital than the United States (U.S.). Currently, the PRC has become the country which has attracted the largest foreign investment capital in the world since 2002 (Xi 2005). This strong trade complementarity has eventually driven the expanding commercial relationship between China and many countries worldwide (Zhang 2005), which is reflected the current GDP of China that has been boosted to nine point five per cent (Editor' s Word 2005b). Given the immense potential for even greater economic benefits than the multi billion dollar agreement with the U.S., Australia intends to seek a free trade pact with China (Armitage 2005). It is foreseeable that China will continue to play a major role in the global market and provide numerous new trading and business opportunities for local and foreign investors. As a result, more and more foreign investors and non Chinese managers are certain to conduct and manage business in the Chinese marketplace. Thus, the development of an instrument to assess business strategy orientation is warranted and may provide foreign investors and non Chinese managers with a potentially useful tool for evaluating their business strategy when they conduct business in China.

During the last two decades there has been a great deal of studies that have mainly focused on formulation and implementation of Western business strategy (Miles & Snow 1978, Porter 1980, 1985, Digman 1986, Pearce & Robinson 1991, Anker 1992, Rajagopalan 1997, Barnett & Wilsted 1998). However, it appears that there is still a great deal to be learned about the evaluation of business strategy orientation, particularly for Chinese business organisations. The paradox is that Michael Porter' s three generic business strategies, namely, 1) overall cost leadership, 2) differentiation, and 3) focus, are very popular and highly recommended in China. Indeed, this is reflected in the several repeated translations of Porter' s texts (1980, 1985) that are widely read by Chinese managers. The Chinese even call it ' competitive trilogy' which is an indication that the mainland Chinese have adopted Western texts and used Western theory. Nevertheless, it should be noted that the Chinese business environment is quite different to the Western business context, a point made by Ralston et al. (1993) in their study which identified that the interaction of both culture and the business environment usually create individual sets of managerial values in different countries.

METHODOLOGY

Respondents and Procedure

A total 238 participants were involved in the process for developing a 19 items instrument for assessing Chinese business strategy orientation. The process had five distinct phases. In the first phase the researcher engaged eight prominent Chinese businessmen independently in lengthy telephone discussions (between Australia and China) to compile a number of questionnaire items that corresponded with Porter' s (1980, 1985) framework of three generic businesses strategies. These three strategies of 1) cost leadership, 2) differentiation, and 3) focus were to be the three sub scales of the instrument. The eight participants of this first phase were from the Chinese cities of Fujian, Fushan and Guangzhou that are in Guangdong province, which was one of the earliest Chinese regions to install economic reforms.

The second phase of the instrument development involved 12 bilingual assistants. These people were the members of three mutually exclusive teams that collectively back translated the inaugural scale of 19 items (English to Mandarin to English). Each person held membership in only one team.

The third phase of scale development was the administration of the 19 item scale to a sample of 202 indigenous Chinese managers. A Mandarin version of the instrument was used. Respondents were from the Chinese centres of Guangzhou, Fushan, Nanhai, Zhongshan, Shenzhen, Anhui and Dalian, which are major cities in three of the Chinese provinces that are leading in economic reform initiatives. Assessments of the 202 sets of responses were the fourth phase of the process.

In the fifth stage the researcher visited mainland China. Meetings were conducted with four focus groups (a total of 16 managers) to elucidate the idiosyncratic dimensions of the responses to each

of the 19 items. These focus groups, which varied in composition from three to five people, provided valuable comments that were recorded verbatim, and subsequently are now being comprehensively investigated with the objective of refining, and probably extending the inaugural 19 item instrument.

Measure

A primary intention for developing the 19 item instrument was to be able to evaluate three sub scales. Porter (1980, 1985) posited the importance of cost leadership, differentiation and focus as three generic business strategies. However, there is yet to be generated a robust scale for assessing three strategies in the Chinese business context. Consequently, six items were designed to measure cost leadership, seven items were created to measure differentiation, and six items were created to evaluate focus. A seven point Likert scale was employed (1 = strongly disagree to 7 = strongly agree), which was to enable the determination of an arithmetic mean for each sub scale.

Analysis

Data were examined with two main procedures. Firstly, frequencies of response scores (i.e., number of 1s, number of 2s, ... number of 7s) for each of the 19 items were obtained. Also, the item mean and standard deviation were identified. Secondly, an exploratory investigation with principal component method for extraction of factors using the varimax option was employed to assess the scale dimensionality. Eigenvalues greater than one were retained.

RESULTS

Table 1
Item Descriptions and Factor Scores (N =202)

Item No	Factors	Mean score	Std Deviation	1	2	3	4	5	6
16	3.44	1.49	.730	.056	.045	.030	-.049	.225	
18	3.27	1.34	.723	.095	-.067	.006	-.027	.074	
14	3.24	1.34	.703	-.021	.238	.000	.121	.215	
6	4.05	1.62	.676	-.214	.289	.208	.038	-.065	
2	5.02	1.50	-.601	.342	.253	.172	.024	.365	
11	3.56	1.54	.596	.379	.129	.096	-.239	.037	
17	4.01	1.49	.463	.462	.164	.378	-.303	.073	
4	5.36	1.21	-.035	.654	.119	.133	.038	.013	
19	4.28	1.52	.463	.570	.023	-.074	.133	-.122	
1	5.39	1.20	-.151	.539	-.074	.172	.168	-.070	
5	5.36	1.35	.179	.513	-.317	.043	.133	.394	
3	2.88	1.34	.094	-.052	.843	-.039	.031	.132	
8	4.91	1.75	.241	.306	.562	.316	.045	-.378	
7	5.29	1.46	-.091	.117	-.001	.743	.163	.061	
12	4.06	1.41	.239	.176	.031	.652	-.006	.005	
10	3.22	1.37	.357	.333	.370	-.376	-.107	.082	
13	4.69	1.51	.018	.044	.001	.039	.811	-.116	
9	4.97	1.52	-.043	.193	.040	.137	.762	.182	
15	3.34	1.38	.267	-.055	.089	.050	.006	.800	
Eigenvalue				4.168	2.320	1.379	1.356	1.187	1.115
% of variance				21.935	12.209	7.351	7.139	6.246	5.867
Cumulative % of variance explained				21.935	34.143	41.494	48.634	54.880	60.747

Table 1 shows the scale item numbers, their means and deviations, as well as the factor scores (inter item correlations) for the principal components method for factor extractions. Six factors (i.e., six sub scales) were obtained in seven iterations. Endeavours to obtain three, four or five sub scales resulted in less satisfactory factor scores and groupings of items. A cursory inspection of Table 1 suggests item 10 is unsuitable (due to leakage), item 15 will require additional items for a reliability assessment of the sub scale, and the pursuit of suitable reliability assessments for factors three, four and five would be enhanced with an additional item or two. However, a closer inspection of the means and standard deviations, which demonstrates the variability in the data, (confirmed by a visual inspection of the item frequency histogram) reveals some of the items, and in particular number six, 13, 17 and 19 require refinement. This observation underpinned the fifth phase of the scale development, and a need to continue to refine the inaugural 19 item scale.

DISCUSSION

Development of scales is a high risk venture. This fact is exemplified in the endeavour by Rizzo, House and Lirtzman (1970) to develop the first scale for measuring 1) role conflict and 2) role ambiguity in the then relatively monoculture of North America. Indeed, 16 items (53.3%) of their inaugural questionnaires were discarded after factor analysis. Nevertheless, the Riggo et al. scale is still popularly used in contemporary research despite the subsequent creation of alternative role scales. Moreover, translating scales across culture is even more demanding. A concern for work related scales that can be used internationally prompted Bond and colleagues (The Chinese Culture Connection 1987) to conceptualise the Chinese value survey. After considerable qualitative investment to create a robust, culture free scale the original 40 items were reduced to 16 items by factor analysis procedures. More recently Pearson, Chatterjee and Okachi (2003) endeavoured to assess the relevance of the 10 managerial roles, as hypothesised by Mintzberg (1973), which are taught in leading business schools, and reported in prominent management text, worldwide. On employing two paired 33 item, seven point Likert scales of Western origin, the responses of a sample of 195 indigenous Japanese managers, who were employed in the cities of Osaka and Kansai, revealed that the perceptual intensity (Importance of the role) for each role was significantly greater than the frequency of employment. This perplexing enigma was later resolved by evaluating dialogue from Japanese focus groups. From discussions it became apparent that the 195 surveyed managers did not extensively practise the profile of managerial roles identified by Mintzberg in his study with American managers. Indeed, the Japanese managers were embedded in a very different set of culture, religion, social and economic factors. These examples demonstrate that the development of an universal scale for evaluating Western and Eastern business and work related practices (with the objective of enhancing managerial encounters) is a complex and difficult route.

Implications of this study are illustrated in several interesting findings. There is some evidences that Porter's framework of three generic business strategies may not completely apply to the Chinese market due the uniqueness of the Chinese business environment, which is experiencing transition across business rules and regulations. Hence, the boundary of the three generic business strategies is unlikely to be as clear cut as reported by Porter for business contexts, universally. For instance, doing business in China may have the chance to concurrently employ two or more of the three generic business strategies, and adjust business strategy frequently according to the ever changing market environment as well as institutional and economic changes under the economic transition. This was identified by the result of six factors from the 19 examined facets, which were originally designed for three factors (Porter's three generic business strategies). Further elucidation was made through detailed discussions with focus groups. Moreover, the Western theory of business strategy is perhaps not entirely suitable for Chinese organisations due to its unique market environment and cultural difference. This has resulted in item 10 leaking across four factors, and suggested that high risk decisions are impractical in China's marketplace, which is still under economic development and regulation. A further factor is that the Chinese are

comparatively conservative and have the virtue of being 'down-to-earth' (Chinese Culture 2004).

Dialogue from the four focus groups was helpful in guiding instrument refinement. Specifically, for item 17, which emphasised a need to target development on unusually good value (quality) of products and service; and item 19, which related to the differentiation strategy, focus group members suggested greater consideration be given to how the item wording corresponds with daily living conditions and market circumstance. For instance, value can have two levels (image and product), while brand and trademark can be confusing to respondents if an example is not provided as a part of the questionnaire item. The Chinese living standards are also not yet providing most of the population with a high level of consumption power and this has restricted the market demand for local brand production while enhancing the acquisition of imported generic or local 'fake' (counterfeit) productions. Until the system of intellectual property protection in China is better developed to improve the current level of legal protection and the quantity of pirated products is constrained, the vitality of differentiation strategy in China is problematic.

This study has at least three limitations. First, the study is an initial endeavour to develop an instrument of business strategy orientation and is yet to be completed. Perhaps future research endeavours might investigate the fluidity of business strategy in Chinese organisations under the economic transition. Second, this research only provided the results for assessing this potential instrument in the Chinese private business sector mainly in cities located in Southern, Northern and Central parts of China. A further study could enrich this investigation by testing the scale in the Chinese State owned business sector, and within a wider spectrum in other regional areas of China to assess the business strategy orientation during the ongoing economic reform. Last, future researchers might also compare the business strategy orientation and its fluidity between regions, and between Chinese private businesses and state owned businesses.

CONCLUSION

This study reports a procedure for the development of an instrument for evaluating business strategy orientation in Chinese organisations. It was found that future investigation will be required and that the instrument will need further refinement. From an optimistic stance, it is believed that the instrument has great potential for providing local and overseas business investors and managers with a perspective of business strategy orientation in Chinese organisations. With an increasing level of competition in the globalisation of business, particularly in China's marketplace, the understanding of business strategy orientation is, without doubt, an important competitive strategic tool to business investors and managers alike to improve their competitive advantage. In addition to improving competitive positions through strategies that require cross frontier business engagements, such knowledge has relevance for overcoming barriers to implementations of meaningful transactional practices. Adjusting to the international challenges will attract considerable changes in workforce knowledge and skills, for which HRM is likely to be useful, but greater need for relatively major shifts across employee attitudes, beliefs and behaviours might be achieved by adopting approaches certified by the fundamental pillars of business strategy orientation.

AUTHOR

Katherine Nie has held positions of Director and Executive Manager of an International Business Consulting Company in the People's Republic of China since 1994. Her research interests include business strategy orientation in Chinese organisations and the relationship of business strategy orientation with *guanxi* in China's current economic transition.

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