Research on Strategic Decision-making of Chinese Family Enterprises —a Case Study Based on Real Estate Enterprises in Hainan

(Thesis submitted for the degree of Executive Doctorate in Business Administration)

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ABSTRACT

After over 30 years of development, the number of family enterprises in China has exceeded 50 million, created hundreds of millions of jobs and greatly promoted innovation and economic growth and played an important role for the entire national economy. Corporate strategic decision is about the survival. Scholars made long-term exploration on the corporate strategy-making of family enterprises but still had no sufficient understanding on family enterprises in emerging economies.

Special market context gives Chinese family enterprises many special features: Decision makers from Chinese family enterprises pay more attention to the survival of enterprises over profits; they are not on the level playing field with state-owned enterprises; Chinese family enterprises, besides special resource endowment caused by featured property right, are easily impacted by the macro-environment. The above characteristics of Chinese family enterprises are not inline with basic assumptions of mainstream theories of decision making—maximization of profit as the goal of enterprises, fair competition on the market and relatively stable market environment.

After reviewing previous literatures and summarizing history of industrial development, this dissertation proposes model of strategic decision-making for Chinese family enterprises and hypothesis. It uses multi-case study to conduct analysis from various angles. Indepth analysis was conducted on decision-making strategy of two founders of Hainan-based real estate family enterprises. Meanwhile comparison was made between two local state owned real estate enterprises to reveal how the nature of enterprise property and external environment jointly impact modes of decision-making strategy and its contents.

The study finds that compared with SOEs, real estate family enterprises are more vulnerable to the changes of macroeconomic policies and industrial fluctuation. To build a long-lasting business, founders of family business tend to adopt centralized decision-making mode. In terms of the content of strategy, although family enterprises have the awareness and motivation of the principle-agent practice, but such attempt were failed due to the lack of professional managers and the particularity of the real estate industry. Consequently, family enterprises turn to cultivate the agents internally. In addition, insufficient investment and financing mechanism, possibility of bankruptcy caused by high financial leverage and inferior competition status in the market force family enterprises to take a preference on low-debt financing decision. Considering the “original sin”, inferior position may also lead family enterprises tend to chose long-term investment. On business expansion, family enterprises formed a “rolling out”development based on their own advantages and disadvantages to “support key project of tomorrow with cash flow project”, while enjoying a clearly leading position on the deployment of emerging business with greater diversification compared with SOEs.

Family enterprises that take a comprehensive consideration on both characteristics of property right and external environment did not only pull through crisis successfully, but also realized
good business performance so far, though long term performance need continuous observation. The above-mentioned findings have significant academic contribution to the development of the strategic decision theory while offering theoretical guidance to improve the governance of Chinese family enterprises.

**Key words: real estate, family enterprises, strategic decision making, case study**
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Chapter One Introduction

1.1 Raising the Question

Family enterprises have become the major driving force of global economic growth—not only created jobs, stimulated innovation but also promoted productivity (Francis 1993; Romano, Tanewski & Smyrnios, 2001).

In the United States, family enterprises contributed 89% of the total tax revenue, two-thirds of GDP and created 62% of the total number of employees (Astrachan & Shanker, 2003). Among all listed companies in the U.S., 40% are control by family, including many old-honored multinational corporations such as Ford, DuPont, Kodak, General Electric, Motorola and so on. 175 out of the Fortune 500 are family enterprises. In Europe, a dominating number of SMEs (and even big enterprises in some countries) are family owned. For instance, in Germany and the Netherlands, over 80% of their enterprises are family business, while in the UK, 76% of its 8000 big enterprises are family enterprises. In India, Latin America and the Middle East, more than 95% of the enterprises are owned by families (Lee, Lawrence & Che-Wei Teng, 2003).

China’s family enterprises developed rapidly in the early 20th century. Many family enterprises in textile, rubber, matches and other industries even established monopoly. During the World War II, suffering from the deteriorated economic situation, many family enterprises were forced to close down (Zhang, 1983). After the founding of the People's Republic of China in 1949, a small number of surviving family enterprises recovered rapidly, but were characterized as “exploiting classes” (Xu, Lu & Gu, 2014). From 1954 to 1956, the Chinese government carried out a nationalization reform on the private sector, gradually socialized all family enterprises (Xu, Lu & Gu, 2014; Ma Jiaju, 1956). After the movement, family enterprises disappeared in China, along with family business culture, managerial expertise, and managerial talents. “Any reminiscence of private ownership would be demonized, eliminated, and forgotten in the next 20 years” (Xu, Lu & Gu, 2014:524). It was not until reform and opening up in 1978 that the demonized family enterprises started to re-sprout. Around 1980s, family enterprises once again bourgeoned with new identities—they are “new family enterprises” that had no relationship with those operated from the earliest days of the founding of PRC. With only 30 years of development, These Chinese family enterprises are still in the early stage of their life cycle according to Western standard (Adizes, 1988).

Although with short history of development, family enterprises in China have took an important part in the national economy, especially in the southeast coastal areas, where they enjoy a strong momentum and have become a strong power in China’s economic growth and development (Li, 2003). In 1999, the Chinese Academy of Social Sciences Institute of Sociology and the National Federation of Industry and Commerce Laboratory jointly carried

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out a research covering 1947 private enterprises in 250 cities, counties and districts from 21 provinces. According to the result of sampling survey, more than 90% of Chinese private enterprises were family owned (Zhang, Ming & Liang). However, compared with the significant domestic influence, Chinese family enterprises are lack in competition edge on the international market. Unlike European and American historic family enterprises with generations of heritage, most Chinese family enterprises are quite young. This is also one of the reasons that the Forbes did not include any Mainland family enterprises in its Global Top 100 Family Enterprises List 2015 (3 Hong Kong and Taiwan enterprises were shortlisted). According to 2016’s statistics of Family Business Network, there are 50 million family enterprises in China; 32 million enterprises have founders over 50 years old, which means in the next five to fifty years, these family enterprises will face problem of enterprise heritage.

Moreover, the special market condition of China gives Chinese family enterprises unique characteristics. First, most Chinese family enterprises may not be passed down after the second generation, meaning most of them are likely to be short-lived (Chu & MacMurray, 1993; Lee, Lim & Lim, 2003). To get rid of this fate, decisions makers prefer realizing “business sustainability” through optimizing strategy over the maximization of profits, which is the conventional operational demands (Lee, Lim & Lim, 2003; Song & Li, 2013; Yu & Wu, 2005). Secondly, unique economic transformation created conditions for the co-existence and competition among enterprises of diverse forms of ownership. State-owned enterprises and private enterprises are major players on the market (Xu, Lu & Gu. 2014) with over 90% of the later type being family enterprises (Zhang, Ming & Liang, 2002). Unlike China’s state-owned enterprises who have innate legitimacy and dominance, Chinese family enterprises are much weaker than SOEs in terms of legitimacy (Xu, Lu & Gu. 2014), which lead to unequal competitive status of the two. SOEs do not only enjoy advantages of capital, resource and policy, but also occupy dominant position in many industries. In contrast, family enterprises are still struggling for survival. The gap between the two could be explained by strategic decision making theory (Chu & Wang, 2004). Thirdly, the unfavorable position of Chinese family enterprises is greatly caused by the private nature of property right—they are being discriminated on borrowing loans, enjoying incentives and getting market access. However, with government endorsement, SOEs have the inherent advantage in acquiring these resources (Ge & Zhang, 2014). However, in theoretical researches, many scholars considered only explicit competition factors such as resources and capacity but ignored how family enterprises obtained resource or capacity or why enterprises with different ownerships vary on the capacity of resource gain. Fourthly, in addition to their limitation of resource endowment caused by ownership, Chinese family enterprises are also impacted by the macro-environment, which was less considered by researchers.

Although family enterprises boomed very well recently, studies on decision strategy, which was crucial for these enterprises, were lagged behind and still at the early stage (Chrisman, Chua & Sharma, 2005; Xiang, 2007). The researcher has managed family enterprises for 20 years and witnessed countless family enterprises went bankrupt facing internal and external problems. Their experience stimulated the researcher to think about how to achieve long-term
development for family enterprises. Through a small-scale survey, the researcher found that to guarantee the survival and profits of companies, many managers of family enterprises spend most of efforts on thinking how to deploy the best strategy—who make decisions, what to consider when making decisions, are there any common strategies—there is no clear answer yet.

1.2 Purpose and Value of the Research

Strategic decisions are decisions that affect long-term resource acquisition and allocation (Fredrickson, 1984; Judge & Zeithaml, 1992). Since strategic decision-making is influential to the performance of enterprises, relevant research has become one of the most important topics in the field of strategic management (Shepherd & Rudd, 2014).

After reviewing and summarizing literatures on strategic decision-making, this study found that researches on strategic decisions are in two dimensions: external industrial dimension and internal operational dimension. Researches on the industrial dimension are based on the theory of Industrial Organization (Bain, 1951; Barros & Mendes, 2016; Rumelt, 1991) and classic models such as Porter’s SCP (Structure-Conduct-Performance) model, which emphasized that the positioning of the enterprise decides its market behaviors and consequently its business performance (Porter, 1982). Empirical studies in 1980s questioned the industrial organization theory by shifting research focus to the internal dimension—unique resources and capacities of enterprise. New schools represented by the Resource-based view (Barney, 1991; Lippman & Rumelt, 1982) and the Core Competence Theory (Cohen & Levinthal, 1990; Eisenhardt & Martin, 2000; Winter, 2003) were developed, emphasizing valuable and scarce heterogeneous resources that are hard to be imitated or replaced and the capacity of timely adaption and resources absorption being the source of sustainable competitive edges respectively (Makadok, 2001). These two schools developed independently and formed their own theories (Guo & Yu, 2005).

However, both of the two schools left some issued unexplained. First, in terms of common strategies, both of the theories inherited basic economic views which see the maximization of profits as the purpose of business decision while neglecting survival pressures of enterprises (Miesing & Preble, 1985; Wei et al, 2013). Moreover, both schools assume that subjects of competition are homogeneous, and can fairly participate in market competition. Second, in the aspect of individuality, researches based on industrial strategic decision considered only the industrial environment rather than how macro institutional environment affects strategic decision-making. On the other hand, studies on strategic decision-making from the dimension of internal operation assume all enterprises have equal capacity on resource obtain in the competition, overlooking differences on resource endowment due to varied nature of property right. Third, when developing their own theory, scholars of each school assume that factors emphasized by another school were relatively constant. Both did not consider the possibility of joint influence (Lawrence, 1999).

The theoretical gap is significantly obvious when the research objects are Chinese family enterprises, made it difficult to Chinese managers to follow the guidance of existing theories.
Operating in the transitional economy, family enterprises in China hope to realize sustained survival and development through making strategic decisions. But do they choose owners’ centralized decision-making mode or democratic decision-making? How do they make decisions on crucial issues such as personnel, finance and business diversification?

Based on the classic strategic decision-making theory and his own personal experience, the author will explore how external environment and enterprise characteristic impact their strategy decision-making, and how strategic decisions further affect survival and profit of enterprise, bringing contribution to both theoretical study and practical work.

This dissertation has 3 theoretical innovations:

First, studying strategic decision-making from the perspective of enterprise survival. As mentioned earlier, both studies on strategic decision-making from industrial and operational dimensions emphasized profits maximization as the purpose of business decision, while neglecting issues related to the survival of enterprises (Miesing & Preble, 1985; Wei et al, 2013). However Chinese family enterprises when making optimal strategic decision, attach higher importance on the long-term success of their business than profits (Lee, Lim & Lim, 2003; Song & Li, 2013; Yu & Wu, 2005). Their mode and content of strategic decision-making are different to other enterprises or family enterprises of other economies. Existing researches failed to give answers on how Chinese family enterprises make strategic decisions with the objective of long-term success. This dissertation aims to explore the strategic decision-making modes and mechanism under the motivations of long-term development and hopes to add theoretical complementation to existing studies strategic decision of family enterprises.

Second, exploring strategic decision making from the starting point of unequal competition. Previous researches on strategic decision-making assumed the homogeneity of all players, emphasizing that different competitors are equally involved in the market competition. Under the unique economic transition environment in China, both SOEs and family enterprises participate in the market competition with different status. Chinese SOEs have innate legitimacy and resource advantages, while family enterprises are weak in legitimacy and do not enjoy any advantages on capital, resource or policy (Xu, Lu & Gu, 2014; Chu & Wang, 2004). This dissertation attempts to use the two stage sampling method (Eisenhardt & Graebner, 2007) to draw comparison between listed SOEs and private family enterprises in order to understand how family enterprises make strategic decisions in unbalance competition.

Third, exploring issues of strategic decision making for enterprises with the considerations on both macro and micro levels. Strategic decision-making from industrial dimension only considered industrial environment and not take the influence of macro-level institutional environment on enterprise strategies; While strategic decision-making from operational dimension assumed an equal position of all enterprises during competition without considering differences of resource and capacity obtaining for enterprises of different property ownerships. Moreover, when studying strategic decision making, scholars of each school
assume that factors emphasized by another school were relatively constant. Both did not consider the possibility of joint influence (Lawrence, 1999). The inferior position of Chinese family enterprises is greatly caused by the private nature of property right—they are being discriminated on borrowing loans, enjoying incentives and getting market access. However, with government endorsement, SOEs have the inherent advantage in acquiring these resources (Ge & Zhang, 2014). However, in theoretical researches, many scholars considered only explicit competition factors such as resources and capacity but ignored how family enterprises obtained resource or capacity or why enterprises with different ownerships vary on the capacity of resource gain. This dissertation will take a comprehensive consideration of the nature of property ownership, industrial and macroeconomic environment, and will analyze issues on strategic decision making of Chinese real estate family enterprise under various scenarios.

To sum up, focusing on strategic decision making, this dissertation aims to take unequal completion as the starting point of understanding strategic decision making. It employs multi-case study as method and bases itself on Smith’s (2014) model of Dynamic Decision Making while includes factors of decision makers and internal and external conditions of enterprises. The dissertation offers a strategic decision making model for Chinese family enterprises, further optimizing research on strategic decision making and enriching academic its understanding, while providing guidance for family enterprises in China.

1.3 Content and Structure

The dissertation consists 6 chapters. In the first chapter, comparison on the current status of strategic decision-making research and practical problems in the process of strategic decision-making for Chinese enterprises was made to identify characteristics of decision making among Chinese family enterprises: long-term sustainability as the most primary purpose, disadvantaged market competition and vulnerable to the fluctuation in market and institutional environment. Decision-making issues of Chinese family enterprises are in conflict with the basic assumptions of existing theories of strategic decision making. For this reason, the research question of the dissertation is proposed: under the special institutional and market environment of China, how do family enterprises make strategic decisions? To be more specific, what decision making models do they use and how to make decisions on key issues such as personnel, finance and business expansion?

In Chapter two, relevant literatures on family enterprises and strategic decision making was reviewed. A more comprehensive definition on family enterprises was given to describe special features of Chinese family enterprises from multiple dimensions, strengthening understanding on Chinese family enterprises within the academic circle. Literature on strategic decision making of family enterprises and the research gap was also summarized in this chapter.

Chapter 3 introduced the research background from 3 perspectives: history of China's real estate development, changes of real estate policies and an introduction of Hainan real estate
market. The basic theoretical model of this study, which was based on strategic decision making theory, was also presented in Chapter 3.

Chapter 4 proposed 4 hypotheses on the models and content of real estate family enterprises based on strategic decision-making theory in combination with experiences in real estate family business.

In Chapter 5, the author employed the multi-case research method to explore the strategic decision-making problem of the family business according to the novelty of the research title. At the same time, four real estate enterprises in Hainan were selected as the research object by using the “polar types” sampling method.

In Chapter 6, rigorous and profound analysis was made on the 4 selected cases to explore logic and facts behind strategic decision-making in family enterprises. Hypothesis proposed in the previous chapter were verified here one by one.

The dissertation concluded in Chapter 7, significance of the study was discussed in the combination with managerial practice in Chinese family enterprises. Limitations and further improvement of the study were also identified.

The following diagram may give an intuitive picture of the research structure:
Source: summarized by the author

Figure 1-1 Research Framework
Chapter Two Literature Review

2.1 Definition and characteristics of Family Enterprises

2.1.1 Definition of Family Enterprises

For its global pervasiveness and importance, management of family enterprises has become one of the heated topics that draw concern from both academia and the industry (Brenes, Madrigal & Requena, 2011; Dyer, 1989; Gersick, 1997; Miller, Steier & Le Breton-Miller, 2003; Sharma, Chrisman & Chua, 1997). Scholars and entrepreneurs never reached agreement on the definition of family enterprises. Some scholars emphasized that family enterprises should be identified from multiple dimensions. Handler (1989) and other scholars believe that family enterprises can be identified from 4 dimensions: ownership and management, family involvement, generational transfer and multiple conditions. Others highlighted the importance of a single dimension (Chua, Chrisman & Sharma, 1999; Claessens & Lang, 2010; Miller & Rice, 1967). In an article named *Family firm research: The need for a methodological rethink*, Westhead & Cowling (1998) made an important empirical study on how different definitions of family enterprises impact relevant study and believed that definition on family enterprise may have significant influence on the development and implementation of government policies. One can argue that the differences between the performance of family enterprises and non-family enterprises may not be real, but errors derived from different definition on family enterprises and inconsistent sampling.

To define family enterprises, relevant literatures were reviewed and four common indicators were selected: ownership, family involvement, control right and behavior perspective. By considering the above 4 factors, the study proposed a comprehensive definition as a basis of research.

Ownership. Ownership is the basic standard to define whether a certain enterprise is family enterprises or not in foreign literatures as well in Chinese ones (Chua, Chrisman & Sharma, 1999; Li & Wang, 2004). For instance, Corbetta & Montemerlo (1999) argues the essential condition of a family enterprises is that the family must own a sufficiently equity in the company, which allows the power of strategic decision-making for family members. Although most scholars believe that family should hold ownership and family enterprises are companies owned and controlled by a core family, they have different views on the proportion of family ownership. Donckels & Fröhlich (1991) argued that an enterprise shall be called “family enterprises” only when members of one family hold over 60% of corporate property or equity. While scholars like Claudeens & Lang (2000), Faccio & Lang (2002) and Shleifer, Porta & Lopez-De-Silanes (1999) set the family ownership percentages at 10%, 20%, 30% and 40% respectively for enterprises to become family enterprises. That is to say, families may take the control of the enterprise with a small holding of property or equity. This type of definition is
confusing and problematic, especially for enterprises with complex ownership structure and multiple layers of equity. Family enterprises cannot be defined solely based on ownership.

Family involvement: Miller & Rice (1967) argued that family involvement is a key feature that differentiates family enterprises from the others. Donnelley (1964) defined family firms as "one which has been closely identified with at least two generations of a family and when this link has had a mutual influence on company policy and on the interests and objectives of the family". It means:

1. The vision of values of the enterprise should be in line with that of family members
2. Spouse and offspring of the current CEO, or the former CEO should be the member of the board of directors
3. Family relations being the major factor in determining management succession
4. The reputation and honor of family members is determined by the relationship between them and the enterprise
5. Family status of family members is determined by their position in the enterprise
6. Behaviors of family members reflect the reputation and honor of the family
7. Family members assume the obligation of enterprise’s equity not for profits but because the continuation of the business may show the sustainability of the family.

Other scholars did not only consider family involvement but also the issue of intergenerational transfer. Churchill & Hatten (1997) argued family enterprise refers to those companies within which younger generation will replace previous generation. This type of definition is not comprehensive either. For instance, in China, many young people challenged the inheritance tradition and establish their own business. Although there is no generational transfer, many firms still remained as family enterprises. In general, defining family enterprises by family involvement only emphasized the objective existence of family members, ignoring their subjective roles.

Control right: Unlike the perspective of family involvement, the perspective of control right highlighted the subjective role of family members to the enterprises. In a research on Taiwan’s family enterprises, Sun Zhigang (1995) proposed another identification criterion on family enterprises—taking operation and control right as the core of identification: when a family or a number of closely related families hold the operation and control right of an enterprise directly or indirectly, the enterprise is defined as family enterprises. Jin and Yu (2002) also believed that the control right hold by the founding family is the basic standard to distinguish family enterprises and non-family enterprises. Since operation and control right is generally derived from ownership, using it as a core defining criteria may be neither accurate nor operatable. However, it is true that the deployment of control right is key issue that should be concerned by family enterprises, particularly for Chinese family enterprises. Many literature showed that compared with their Western counterparts, Chinese family business owners are more reluctant or having bigger difficulties on granting or transferring corporate control right
to non-family members. Thus, research on internal governance issues of Chinese family enterprises will be focus on control right (Gersick, 1997). Litz (1995) also supported control right-based definition on family enterprises for the perspectives of property right structure and management right structure. Although did not give a clear definition, he strongly believed that family enterprise is closely related to family’s control on property and management, stating that if the property right and management right of an enterprise are hold by a family, this enterprise must be a family enterprise.

Behavioral Perspective: The study by Litz (1995) was questioned by Chua, Chrisman & Sharma (1999) who gave out questionnaires to 1725 companies through the Canadian Family Business Association and the Deloitte & Company database in Canada. They found that management control right, succession, and corporate governance were useful criteria for early sampling. However, none of these criteria can be used to distinguish family and non-family enterprises. Also, both ownership and control right perspectives saw family members as in static status without considering their behaviors in enterprises. Chua, Chrisman & Sharma (1999) were first scholars who proposed to define family enterprises from the behavioral perspective. They believed that origin of family enterprises lied in its behaviors; behaviors stemmed from specific intentions; intentions are the pursuit of family vision. Firms can be categorized as family enterprises when the following conditions are met: business management and control was taken for the intention of achieving of corporate vision; the vision origin from dominant coalition; dominant coalition was controlled by one or few families; the pursuit on family’s vision will be long-lasting through intergenerational transferring.

In this way, the pursuit of family vision became possible for the existence of family ownership and the right of management and can be sustained in a stable manner through intergenerational transferring. The ownership of control right is an important way to pass down and realize family vision. Thus, in general, a family enterprise is an enterprise that controlled by one or few families who propose and realize family vision over generations. But there is also a big problem with this definition—vision itself does not necessarily lead to different management behaviors. This is because family vision can be achieved through the secondary distribution and secondary coordination externally. Even if a certain family has the pursuit on potential family succession and had formed a strong joint management, one can still assume that it is possible for the enterprise to see family members as same as other family members when considering successor candidates and treat them equally with fair competition (He, 2004). In other words, this family enterprise is identical to non-family enterprises in its behaviors.

Both of the ownership perspective and behavioral perspective are based on the condition that the enterprises are long-lasting and well-managed. For Chinese family enterprises, these defining methods are not fully applicable since modern commerce only practiced in China for 30 years, professional managers only emerged in recent years (such scared talents are short in needs and experience). Founders of many family enterprises (the first generation) are still on management position within the family. With both ownership and control right, families are deeply involved in the companies. All four classification standards above are embodied on
Chinese family enterprises in an interconnected way. Therefore, based on the above analysis, this study took reference from the study of scholars including Li and Wang (2004) and try to define family business in China with the following features: (1) family enterprise refers to the enterprise where minority family members who are related to crucial manager of important department by consanguinity or by marriage have the hold of control; (2) family members have decision-making power on major business decisions; (3) family members deeply involved in enterprise management, the maximization of family interests is included into major objectives of the enterprises; (4) corporate ownership and control tend to be passed down through intergenerational transferring. This definition is used throughout all case study of this study.

2.1.2 Characteristics of Chinese Family Enterprises

Based on the above definition on family enterprises, this study explored unique characteristics of Chinese family enterprises at the macro and micro levels. On the macro level, this dissertation put its focus on the unique family culture in China; while at the micro level, the leadership characteristics, management characteristics and transferring characteristics of the family enterprises and their important impact on business operation are discussed.

Cultural characteristics: China is a country with the longest and deepest family tradition. Its family culture is a reflection of the distinctive characteristics of traditional Chinese culture. Thousand years of social accumulation of family culture has a significant impact on Chinese enterprises and business behaviors of today (Chu, 2003). The study of contemporary Chinese family enterprises helps to deepen people's understanding on the relationship between Chinese socio-economic environment and Chinese enterprises and their business behaviors. It is also helpful for the discussion on docking point between traditional culture and modern market economic rules and modern enterprise system and for the identification of an effective management model for Chinese enterprises. Originated from farming civilization, the stability of Chinese society is maintained by patriarchal system that treats the nation and families as a whole. With basic principles such as family as the fundamental unit, patriarchy being a center and the eldest son inheritance, such patriarchal system was deeply rooted in China for thousands of years. In addition, tied by the family, people's social status is decided by the closeness of the kinship. This inveterate family concept has become a national consciousness. Family members have developed a natural trust to each other and other closely related person such as kinsmen, countrymen, classmates and relatives, while holding a congenital barrier to people not related/close to them.

Since the family concept is strongly and deeply rooted in the minds of Chinese people, the family-based cultural accumulation influence the choice on the form of corporate organization in a considerable extent for quite a long time (Li, 2003). Historically, oversea development (especially in the Southeast Asian countries) of the Chinese family enterprises has become an important explanation and paradigm for the evolution of modern Chinese family enterprises. It can be seen as both the support and criticism on Weber’s protestant ethics and the spirit of capitalism. Weber’s (1987) view—dominated researchers’ general belief for a long time—argued that the primary factor hinders the development of capitalism in China is the
emphasis on Confucianism and family relations. In recent years, another argument by American scholar Fukuyama (1998) has aroused widespread attentions both at home and abroad. He believed that since Chinese society holds low level of trust on outsiders, Chinese companies tend to be owned and managed by family and are reluctant to hire professional managers for the company. One the other hand, originated in societies with higher trust level, companies from the United States, Germany and France have less difficulties on breaking the family system. They are more competitive and capable on creating large-scale economic organizations. On the issue of trust, another scholar, Redding (1993) argued that the trust of the Chinese people is built upon personal commitment and maintain of honor and “face”, believing that it is extremely hard to push Chinese family enterprises to transfer power to professional managers through the so-called “management revolution” in the West.

Of course, Redding seemed to notice that overseas Chinese enterprises are also changing. Some of these companies started to switch their sole focus on kinship and affinity, but turned to focus on ability and performance. In Asia, the old pattern of family operation was broken down and the trend of hiring competent and professional managers emerged. All these scholars keenly noticed the difference on the principal-agent relation between China and the West and tried to explain it from the cultural dimension, but ignore the institutional problems on the macro level and the historical dilemma on the meso level.

Leadership characteristics: The owners of family enterprises have the whole control, command and decision-making power on people, finance, material, supply, production and sales of the whole process of operation. Under the patriarchal style of management, business owners may develop a pedagogical patriarchal leadership that is totalitarian and doctrinal (Xu, 2003). Patriarchal leadership is widely adopted among Chinese family enterprises and become particularly clear when the gap of power is widening. Those who enjoy the upper hand may display themselves in an extreme way while subordinates may become self-restraint, showing the behavior of obedience. According to the study of Silin (1976) and Redding (1990), patriarchal leadership is used among Chinese enterprises with the following 3 significant styles. First, authoritative leaders who are very dictatorial and disparage capability and images of their subordinates through lecturing. While their subordinates responded with obedience, fear and shame. Second, benevolent leaders who care and protect subordinates. Their subordinates are grateful. Third, moral leaders who are scrupulous in separating public from private interest and set themselves as the real model. Their subordinates recognize and follow them. To sum up, entrepreneurial leaders or the head of family show strong and authoritative patriarchy value. Their leadership is presented in 3 styles: authoritative, benevolent and moral. Patriarchal leaders expect obedience from their subordinates and hope such behaviors may help to improve leadership performance. In reality, although limited by the external environment, patriarchal leaders in Chinese family enterprises also seek ways of change, such as replacing authority decision-making with democratic one. This type of leadership is the product from the interaction between personal characteristics and environmental elements.

Management characteristics: family management is the governance structure that widely adopted in Chinese family enterprises. The key characteristic such a governance structure is
that the family holds the management right of the enterprise and offer the initial capital to the enterprise. As the major manager and decision maker, the founder of the enterprise occupies the core position within the enterprise, with his/her family members taking important titles of in these family enterprises. Further research found that although the family members are holding leadership positions in the family business, but a clear pattern of different sequence can be identified from this type of management—and it is typical among Chinese family enterprises. As early as 1948, Fei Xiaotong put forward the theory of “the Pattern of Difference Sequence”, believing that composed of numerous private relations network, Chinese society has the pattern of difference sequence. This network is a spider web with the center being people themselves. By taking “self” as the center, people’s social relations radiate outward from the center like ripples—the farther it goes, the weaker it becomes. In other words, the degree of closeness and the degree of trust decrease from the center to the margin. In Chinese family enterprises, centered with entrepreneurial leaders or the head of family, there is also an intangible network like that. Managers classify their employees according to the level of loyalty, capacity and especially the relationship and interact with them accordingly, constituting the basis of corporation management and operation for Chinese enterprises. The close and distant relationship developed between the manager and the employees depends on whether the leader see them as “one of us”, showing a strong group bias: managers tend to categorize employees who have common characteristics as the in-group and see outsiders as the out-group. Scholars have repeatedly described the pattern of difference sequence in Chinese enterprises with their focus on the pattern as a phenomenon. Less attachments were given on the why pattern of difference sequence exists and how it impacts decision making behaviors of family business owners.

Transferring characteristics: Family business is usually regarded as part of the family property and a cause, rather than an independent profit or production units. In other words, enterprise as an economic organization is far less important than the family organization. Therefore, as a family property or a cause, its ownership is assumed to be inherited and transferred within the family from father to son. For example, 95% of the chairman or president of the largest family enterprises in Taiwan trained their sons as direct leaders. Some of them even institutionalized this inheritance. For example, Hexin group formally established a two-generations transferring policy with a successor framework onUncle-nephew relationship. That is, the chairman F of the Xini will pass the power down to his nephew L, who may transfer the company to his cousin, F’s son Q. When Q retired, the enterprises will be inherited by his nephew, who is also the son of L. In this way, the family ensures a stable heritage and long-term prosperity. Because of the reluctance to introduce stronger, more experienced external managers, Owners of Chinese family enterprises have been criticized by Western scholars for their reluctance on hiring capable and experienced managers externally. According to the author's own experience and observation, family business owners are not obsessed with internal transferring within the family. Instead, they recognize the importance and potential value of external expertise and did many attempts. However, subject to external elements, family enterprises owners have to select successors within the family (see case study for more detailed analysis).
In the past, scholars have often regarded the unique characteristics of the family enterprises at both macro and micro levels as independent factors, and have not explored the relationship between these factors. This dissertation argues that long-term cultural accumulation has shaped the micro-characteristics of Chinese family enterprises, while the long-term exploration and practice further strengthened their cultural characteristics. These two aspects are mutually influential and are fully reflected in the practice of family enterprise management. Exploring the interaction mechanism between the macro and micro features of the family enterprises will help us to deepen theoretical understanding and management practice for family enterprises, which will be further illustrated in the chapter of case study.

2.2 Strategic Decision-making Models for Family Enterprises

Strategic decision-making is at the heart of corporate strategic management, and practiced through the entire process and dimensions of management, significantly impacted business performance (Dane & Pratt, 2007; Sterman, 1989). When studying corporate strategic decision-making activities, most scholars focused on the state-owned enterprises, only few explored the strategic decision of the family enterprises, which, compared with the state-owned enterprises, are more vulnerable to the founder's attitude and external environment (Romano, Tanewski & Smyrnios, 2001). In previous studies, strategic decision-making activities include two important subjects, namely, decision-makers and decision objects (Janis & Mann, 1977). This dissertation also explores these two important dimensions of strategic decision-making (Eisenhardt & Zbaracki, 1992; Forbes & Milliken, 1999; Schwenk, 1995).

2.2.1 Strategic Decision-making Model and Research Status

The choice on strategic decision-making model directly decides the prosperity or recession of the enterprise. Thus, establishing a sound and effective strategic decision-making model that can support the operation of the enterprise is the key to success (Niskanen, 1997; Premkumar & Ramamurthy, 1995).

Research on enterprise decision-making model is mostly from the perspective of enterprise life cycle. In the 1950s, Haire (1959) first applied the “life cycle” concept in a study on corporation problems. He believed that like the organism, the growth process of the organization also shows an obvious cycle from birth, growth, maturity, recession to death. Similar to Haire's (1959), Chandler (1962) found that there were four steady stages of growth during the development of company by studying the history of the development of large enterprises in the United States: initial expansion stage for resource accumulation, growth stage for functional structuring and the rationalization of resource allocation, diversification stage for the utilization of resources, continuous new products R&D and occupation of new market, and the segment structure stage for the maintenance and full use of diversified resources. In spite of this, Haire (1959) and Chandler (1962) only described the life cycle of the enterprise from the phenomenological level, and did not carry out in-depth theoretical discussion.
It is Adizes (1988) who specifically proposed the theory of enterprise life cycle. Through a large number of studies and follow-up survey on the development processes of enterprises, Adizes proposed the life cycle theory and put forward the enterprise life cycle curve that profoundly illustrated each stage of the life cycle, revealed the essence of the enterprise life cycle from the basis. He divided the life cycle into three stages—growth period, maturity and aging period. Each stage was further divided into various periods (all ten periods). For instance, the growth stage includes gestation, infancy, adolescence periods and so on. Adizes (1988) argued that companies have different levels of maturity and varied core management issues at different stages of the life cycle. Consequently, different decision models are required to take—decentralized participatory democratic decision-making models at the stage of growth, scientific decision-making model at the maturity stage, and centralized paternalistic decision-making model to turn the situation around at the stage of recession.

Domestic scholars in China started to pay attention to the theory of enterprise life cycle from the end of the last century. One of the representative scholars is Chen Jiagui (1995), who divided enterprise life cycle into 6 stages according to the enterprise growth process: incubation period, start-up period, rapid growth period, stable maturity period, degenerating period and transformation period. A transformation period was added based on period to explain how enterprises choose its development strategy in the later stage. The theoretical and application value of enterprise life cycle research received higher attention by researchers after Chen (1995). One of the mainstream research topics of life cycle is how enterprise life cycle affects business decision-making model. Similar to Haire (1959) and Adizes (1988), domestic scholars also took a large number of reference from the theory of enterprise life cycle when studying decision-making model of family enterprises. Most of research followed Ichak Adizes’s view (1988), stating that decision-makers should follow the West and fully consider the enterprise life cycle when choosing ways of decision-making. Based on the 3-stage life cycle proposed by Ichak Adizes, these scholars added a start-up stage. They argued that at the start-up stage, a centralized patriarchal decision-making model should be used, while during the stage of growth, participatory democratic decision-making model should be taken. The professional scientific decision-making model shall be used in the maturity stage; and the centralized patriarchal decision-making model to turn the situation around at the stage of recession (Adizes, 1998; Adhes, 2004; Hu, 2006; Lian& Fu, 2013; Xue & Xu, 2005). Logic and reasons are analyzed in the following sections.

（1）Start-up stage—centralized patriarchal decision-making model. At the stage of start-up, family enterprises are like a baby in infancy. The key to survival relies on sufficient operating capital and huge efforts from the founder. At this stage, enterprises only have limited policy, regulation, process and budget, pushing the founder to hands-on on all issues. This is also the stage that bears the greatest risk and witnesses the highest business mortality. Companies at their start-up stage have shortage for staffs, limited products and simple organization structure. In this flat management framework, in order to seize the market, the owners hold all control and make decisions alone to guarantee fast decisions under the huge pressure from fierce external competition and internal instability. In addition, perceptual decisions and fast
judgments are low in "decision-making costs" and "conversion costs", maintaining the enterprise management costs at a low level. With apparent cost control effects, this decision-making model meets the needs of business survival.

(2) Growth stage—participatory democratic decision-making model. Enterprises cannot continue to implement the centralized patriarchal decision-making model at the stage of growth. Instead, it should give full play to the positive role of employees and unleash the potential of decentralization. Enterprises should take the initiative to expand the number of decision makers and transform the dictatorial decision-making into a democratic decision-making model, which can only enable employees to maximize their enthusiasm, feel respected and satisfied, but also reduce resistance of the decision and minimize decision-making mistakes. Although at this stage, democratic decision-making model is adopted widely in the company, business owners still hold the final decision-making power on key business decisions, such as finance, personnel and etc. Family members on core positions also can offer their suggestions on important issues. Fully democratic decision-making model is implemented on the general business decisions, where general managerial staffs can participate the decision-making process within the mandate and authority.

(3) Maturity stage—professional scientific decision-making model. With family enterprises develop into the mature stage, malpractice of management that based on kinship gradually revealed. At the start-up and growth stage, most family enterprises are relatively small in scale, and the family relationship-based management did play a certain positive role. But with the improvement of socialist market economy and the development of family enterprises, family management fail to meet the needs of enterprise development especially facing the fast-changing market and fierce competition. Therefore, for family enterprises at the stage of maturity, introducing professional managers, using professional scientific decision-making model has become an inevitable requirement for their prosperous development. It is also an effective tool to overcome their disadvantages and break business bottleneck. Professional management can promote the standardization, reduce arbitrariness, bias, ambiguity of relationship-based management to a great extent and improve the rules of consensus on business rules between managers and employees, which may further improve the internal coordinate and promote operational efficiency. Moreover, new business ideas and management expertise will be brought to the enterprise make strategic decision-making more scientific, democratic, feasible and rational. With increased capacity on risk resistance, a rapid and stable development will be ensured.

(4) Recession stage—centralized patriarchal decision-making model to turn the situation around. Entering into the recession stage, family enterprises suffer from rigid organization, oversize institution, complex decision-making process and low efficiency. They face two options: die out or reform. At this stage, individual decision makers with personal charisma and great talent are needed to turn the situation around, reverse the path of destruction or slow down the process of recession. The founding father of the enterprises may come back, take over the company and make immediate decisions in the crisis moment. They are taking a
centralized patriarchal decision-making model to avoid failure and enable a steadier recession before transform. Scholars such as Hu (2006), Lian and Fu (2013), Xue & Xu (2005) believed that at the early start-up stage, by utilizing close connection and strong social resources, family enterprises can quickly attract capital and fully involved in investment. At this stage, patriarchal decision-making helps to pool strength, make quick decision and seize the opportunity. With the gradual development of enterprises, the drawbacks of the patriarchal system are also manifested. At this stage, it is difficult to adapt to the development of enterprises solely with experiences. New models need to be introduced to solve potential disputes on benefits and to satisfy new development needs. Business owners should open their mind and listen to professionals and their staffs for suggestion when making decisions. Scientific decisions based on research, rather than decisions based on experience and intuition, will reduce the risk of decision-making mistakes. To sum up, scholars believed that since stages of enterprise life cycle are predictable, as long as we identify stage of the enterprise, managers are capable of taking positive preventive measures on potential problems, or can even completely avoid these problems. These views seem theoretically feasible.

2.2.2 Research Issues of Strategic Decision-making Model

Although Hu (2006), Lian and Fu (2013), Xue & Xu (2005) and other scholars have demonstrated the feasibility of enterprise life cycle theory being applied to the strategic decision-making for family enterprises, they neglected Adizes (1988) ‘s assumption and scope condition on strategic decision-making including stable market environment, small policy fluctuations, adequate supply of professional managers, sufficient professional manager regulator system and mature principal agent mechanism.

Engaged in family enterprise management for nearly two decades, the author, through his personal experience and observation on the management practice of other family enterprises, noticed that decision-making model based on the life cycle theory is not fully applicable in reality; and Chineses family enterprises formed their unique management model in practice. To verify this idea, the author reviewed related literature and database the family business decision-making and found supporting evidence. In a sample survey conducted by China Federation of Industry and Commerce (CPPCC) on the decision-making condition of Chinese family enterprises from 1995 to 2002 (Bao, 2005), the result of five samples showed that individual decision-making was taking a high proportion among all other types. As can be seen from the table, whether it is a major business decision-making or general management ones, individual decision-making of business owners are taking the highest proportion. That is to say, they take the full control on financial, personnel, institutional settings and other matters. With the enterprise developed, proportion of individual decision-making has been reduced over time, but still occupies the primary position. Since this survey lasted for 10 years, many enterprises passed multiple stages along the life cycle. The fact that business owners took individual or even centralized decision-making style remained unchanged. From the results of the sample survey, it is not clear why these family companies take this decision-making model. This dissertation plans to conduct in-depth exploration on this issue.
Table 2-1 Sampling Survey on Decision-making structure (%)

<table>
<thead>
<tr>
<th>Decision makers</th>
<th>Major Business Decisions</th>
<th>General Management Decisions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business owners alone</td>
<td>63.6 54.4 58.7 43.7 39.7</td>
<td>69.3 47.3 54.7 35.4 34.7</td>
</tr>
<tr>
<td>Board of Directors</td>
<td>15.2 19.7 11.0 26.3 30.1</td>
<td>5.1 15.1 10.0 18.2 25.9</td>
</tr>
<tr>
<td>Business owners and other managers</td>
<td>20.7 25.6 29.7 29.1 29.6</td>
<td>25.3 37.3 34.5 41.8 36.5</td>
</tr>
<tr>
<td>Business owners and other organizations</td>
<td>0.6 0.0 0.3 0.5 0.2</td>
<td>0.3 0.3 0.4 0.8 0.7</td>
</tr>
<tr>
<td>Others</td>
<td>0.0 0.0 0.0 0.0 0.0</td>
<td>0.0 0.0 0.3 3.4 2.3</td>
</tr>
</tbody>
</table>

Source: Report on Chinese private enterprises 2002

From the table it can be seen that from 1993 to 2002, whether it is a major business decision-making or general management decision-making, business owners saw the highest proportion of independent decision-making and preoccupied in financial, personnel, institutional settings and other matters. Although the proportion decreased over time, they still occupied the top position. Although the research spaned 10 years, the family business life cycle might be converted to multiple stages, but the situation that business owners occupied the main decision-making and even centralized decision-making position was not changed obviously.

In addition, this research did not continue after 2002. It is still unknown whether current decision-making model of Chinese family enterprises has changed. In the latest research on the decision-making models of Chinese family enterprises, some scholars such as Lu Hongjiang, Wu Liang and Zhou Yingtang (2016) argued that bottlenecks had occurred in the operation of Chinese family enterprises, and democratic decision-making was conducive to the capture of diversified views and innovation. Why these family enterprises adopted a democratic or centralized decision-making model along with effective solutions was not reflected in the sample survey results. This dissertation aims to explore this issue in depth.

2.3 Contents of Strategic Decision-making in Family Enterprises

Decision content is another important dimension of decision-making theory (Janis & Mann, 1977). The results of the above-mentioned research on the decision-making in Chinese family enterprises showed that the business owners firmly hold control on important decisions such
as finance, personnel and business diversification. This dissertation explores contents of decision making in Chinese family enterprises from 3 important perspectives: decisions on investment and finance (Agrawal & Mandelker, 1987; Childs, Mauer & Ott, 2005; Fama, 1978), decisions on diversification (Denis, Denis & Yost, 2002; Ferris, Sen & Thu, 2010; Zajac & Bazerman, 1991); and the decisions on agency (Miller & Breton-Miller, 2006; Morck & Yeung, 2003; Tosi, Katz & Gomez-Mejia, 1997).

2.3.1 Decisions on Agency

Decisions on agency mainly focus on the principal-agent relationship of the enterprises. Principal-agent relationship refers to one or more behavior subjects designate or hire others in accordance with an express or implied contract, while granting the latter certain decision-making rights, and offer corresponding remuneration according to the service and quality offered. The person who authorizes is the principal and the one who is authorized being the agent. Specialization is an important reason for the principal-agent relationship.

Early research on agency issues focused mainly on company with dispersed ownership, meaning the ownership and control rights are separated (Berle & Means, 1932), and managers (agents) who sought to maximize their utility were the one with the control on the company. Although the manager is responsible for the company's business decisions, the consequences of the decision are shouldered by the shareholders (the principal), so that the conflict of interest between the managers and the shareholders is inevitable (Jensen & Meckling, 1976). For example, the diversification of business decisions made by managers in some conditions may conflict with the interests of shareholders. But managers will still adhere to the implementation of such a decision when his private gains from diversification exceed private costs, disregard whether such decision may compromise interests of shareholders. Agency theory at its early stage mainly explained the problem during business diversification from two aspects: the private gain and the dispersed human capital investment risk.

With the deepening of the multinational comparative studies on the ownership structure, it was found that the ownership structure of the companies in most countries outside the United States and Britain was centralized rather than dispersed—the agency problem of ownership concentrated companies began to be taken seriously. The agency problem in these enterprises is mainly reflected by the controlling shareholder who transfer company's resources for the control of private income, and infringe interests of small shareholders (Claessens, Djankov, Fan & Lang, 2002). The most commonly seen infringement of the controlling shareholder is related transactions such as manufacturer-trader collision and the sales of the assets. However, related transactions often inseparable from the diversification, making diversification a controlling tool of shareholder infringement directly or indirectly. This is one of the agency issues of diversification and is called the hypothesis on benefits expropriation by large shareholder (Andres, 2008; Hart, 1995).

Founders of Chinese family enterprises have been criticized for being reluctant to delegate to the professional managers. Many scholars attributed their behaviors to the issue of mindset and capacity. According to the survey conducted by Chu Xiaoping and Luo Toujun (2001), a
considerable number of private family enterprises with relatively abundant financial capital, very low level of liabilities, and advanced equipment encountered with great difficulties. One of the most important reasons was the business owner could not hire management talents that are both capable and loyal. On the one hand, facing management personnel surplus, private family business owners still have doubts and skepticism even if they decided to hire the professionals. On the other hand, there are few successful cases of hiring “outsiders” boldly and improved management efficiency. In reality, cases like dishonest “insiders” fraud and absconded with the money, concealed or distorted information or grabbed original business customers are commonly seen. Family enterprises experienced the “pain of growth” during the transformation from family management to professional management. The short chain of principal-agent suppressed the competitiveness and scale expansion, which may negatively impact China’s economic growth and international competitiveness.

This phenomenon is not unique to China. In his book the Invisible Hand, Chandler (1977) described agency selection for family enterprises in Italy and New York in 1840s. Limited by technical conditions and institutional environment and other factors, it was hard for agents to practice fully follow the commission of the principal—agent’s choice became particularly important. “…the choice of agent had been for centuries one of the most important decisions a merchant had to make. Since loyalty and honesty were still more important than business acumen, even the more specialized merchants continued to prefer to have sons or son-in-las, or men of long acquaintance, as partners or agents handling their business in a distant city” (Chandler, 1977:38). Chandler (1977) emphasized that the principal agent problem caused by limited macro-technical conditions, such as lacking of communication and communication tools. Chinese family enterprises also subject to such a macro environment in choosing agents. Against the context of lacking contract awareness, legal credit system and trust mechanism in the society, opportunistic behaviors emerged.

(1) Contract awareness: corporate contract theory mainly refers to transaction cost theory, principal-agent theory and property rights theory. The core of transaction cost theory is that the function of the firm is to save transaction costs (Zhang, 1995). Coase (1937) held that the essence of the firm lies in the use of management to replace the market transactions; Zhang Wuchang (1983) saw the growth of enterprises as a process where product market is replaced by factor market and the form of contract determines the extent of responsibility shirking, cheating and opportunistic behaviors. Williamson (1975) argued that vertical integration can eliminate or at least reduce the opportunistic behavior led by asset exclusivity when it is impossible to complete the contact. The basic idea of the principal-agent theory is that contractual relations are the essence of the firm, and the firm is a legal assumption that it links a set of personal contractual relationships (Jensen and Macklin, 1976). The theory of property rights mainly studies the effect of rights distribution on efficiency. An enterprise is made up of assets owned or controlled by it, and the ownership of non-human assets is the source of power. Among all schools, the role of the enterprise as a group of contracted productive organizations has been recognized. Both family enterprise and non-family enterprise can be seen as a group linked by contacts with fundamental different nature. Principal-agent contract
of family enterprises is a kind of relationship contact involving family relationships (Gomez-Mejia, Nunez-Nickel & Gutierrez, 2001) and it is not a market transaction at some point in time, and this exchange relationship is extended over time; Some of the transactions in the contract are difficult to be measured or described accurately, and the parties in the contract are strongly reliable to each other, while the non-family business is built on the transaction contract signed by the manager. Classic agent theories assume that the agent is purely rational, and the principal and the agent will sign the contract detailing performance standards, according to which if the agent cannot meet the performance expectations of the client, he will be replaced. But with the restrictions of limited rationality and information asymmetry, the problems of “adverse selection” and “moral hazard” have appeared. According to the contract theory, long-term contract will reduce agents’ opportunistic behaviors (Lambert, 1983). However, due to the incompleteness of the contract (the longer the contract is, the less likely it will be complete), discontinuity and only clearing opportunist behaviors afterward, the function of the long-term contact is limited, unless the information asymmetry crippled by long term transaction will help establish mutual trust between the principal and the agent.

(2) Legal and credit system: China's credit and legal system is not complete, which is particularly evident in the market of professional managers. The perfect manager market includes the professional managers’ assessment market, the free flow market, reputation mechanism, and punishment mechanism. The degree of market perfection directly determines the extent of the penetration of the professional managers and the specific choice of the private enterprise governance model. A sample survey by the National Federation of Industry and Commerce (2005) showed that in the answer to the question of “How do you think of the model of professional managers' governance”, 52.17% participants considered that “the market for professional managers was not fully established”, 23.91% believed that “Professional managers do not regulate the operation of the market” and 36.96% held that “there is no way to query their previous personal credit.”(Gu and Zhang, 2006). The perfect legal system not only protects the interests of investors and creditors, but also the interests of professional managers, thus it can reduce the moral hazard of the principal and the agent. In the period of economic transformation in China, although the protection of private property right is lawful, the efficiency of law enforcement has yet to be improved, judiciary sometimes lacks fairness, and the cost of supervision and punishment is high. A sample survey that conducted over some private enterprises in Chaozhou-Shantou area in the Guangdong Province, the Pearl River Delta region, Zhejiang Province, Fujian Province and other regions, showed that 66.66% of the total participants thought “the law of the country was not perfect” and 33.33% said that “it costs a lot to solve the problem through legal process and they prefer to do it privately.”(Chu, 2004). As the legal system of property rights protection is not perfect, private enterprises are worried that the introduction of professional managers will increase the risk of trade secrets exposure. On the contrary, the family governance model is based on the psychological contract of family members. Through the moral restraint of family ethics, it can effectively establish a firewall to prevent moral hazard, and make up the defects of legal system for private property protection within a certain range. (Gu& Zhang, 2006).
(3) Trust system: trust in economics can be defined as a governance mechanism, which refers to the confidence when the counterparty does not use their own vulnerability to exercise the confidence of opportunism, to provide the stable expectation to rational choice for the main economic body and to lower transaction cost. The trust structure can be summarized as two levels: special trust and universal trust. At the current stage of transition of China's economic system, the special trust of the family is the main trust mechanism in the Chinese society. The institutionalized universal trust mechanism is not well established, which forces most entrepreneurs to adopt the family management model. In the same survey, when answering the question of the current assessment over the status of social trust, 32.76% chose "general" and 56.90% regarded it as “bad”, “very bad” and “fairly bad” (Chu, 2002). However, in the family management model, the combination of the family and the enterprise enables the enterprise to establish a highly-trusted mechanism, saving the cost of entrepreneurship and transaction costs; at the same time, family ethics and special trust simplify the supervision and incentives mechanism within the enterprises and family interests and family affection generates double incentive and constraint on the business behaviors (Gu Shengzu & Zhang Shaohua, 2006).

To sum up, this dissertation argues that family enterprises, when entrusting agents to make decisions, is faced with the limitation in contractual consciousness, legal credit system and trust mechanism, resulting in huge uncertainty in the decision-making. In order to deal with the uncertainty and reduce the transaction cost, the family enterprise may choose the agent internally. On the other hand, with the intensified competition, the drawbacks of the internal agent are increasingly exposed, and the need to employ professional managers externally and how to manage becomes an important consideration for family enterprises (Chen Chunhua, Lai Yizhou, & Li Mengya, 2014).

2.3.2 Decisions on Investment and Financing

Decisions on investment and financing, including financing and investment decisions are an important component of strategic decision-making of an enterprise.

Financing decision is a kind of market behavior of an enterprise, which makes use of certain opportunities and channels by economical, and effective financing tools to raise necessary funds based on its demand of value creating target. It can not only change a company’s structure of assets and liabilities, but also influence its internal management, business performance, sustainable development and value growth. Smith and Watts (1992) put forward the view that a company’s financing policies are significantly influenced by its investment opportunity set; Simon et al. (2004) thought that the investment opportunity set had a strong explanatory power to its financing policies. Working capital is in a large quantity and has frequent turnover in an enterprise’s operating cycles. Insufficient working capital will lead to financial crisis and even bankruptcy. Therefore, to supplement working capital is also a factor that a company shall consider when financing. Another reason for financing is to improve the capital structure. Lu Zhengfei (2003) put forward that Chinese listed companies had a too high asset-liability ratio before listing and needed to be optimized through equity financing. The mainstream financing theory emphasizes that managers’ financing purpose is to
maximize the profits of the enterprise by virtue of capital leverage. However, things are somewhat different for family enterprises. As family enterprise owners have a deep emotion investment in business, in addition to family wealth, non-financial objectives such as sustainable development, family reputation, family control power, etc. are more valued by family enterprises. Besides, family controlling shareholders have dominant positions in decision-making on financing, which explains the fact that the mainstream financing theory is inapplicable to the decision-making on financing of family enterprises.

According to the investment term, investment decision can be divided into long-term investment decision and short-term investment decision. Long-term investment decision refers to the process to analyze and assess the long-term investment program to develop and select the best long-term investment plan in a scientific way. Long-term investment decision is involved in comprehensive and strategic issues in production and operation of an enterprise and its ultimate aim is to improve an enterprise’s overall operating capacity and profitability. Therefore, correct long-term investment decisions may help an enterprise to achieve its long-term plan for production and operation. Short-term investment decisions are made by enterprises in order to effectively organize production and operation activities and rationally use resources. Compared with long-term investment decisions, short-term investment decisions involve relatively small amount and the duration of its effect is generally not more than one year. In terms of investment decisions, western family enterprises generally adopts principal-agent model, leading to great conflicts between controlling shareholders and professional managers in the investment philosophy: controlling shareholders aim to maximize shareholder’s wealth while professional managers aim to maximize private interests; the conflicts of interest between them may lead to short-sighted investment of professional managers (Wang Jing, Hao Dongyang and Zhang Tianxi, 2014). Therefore, not as long-sighted as family managers, professional managers often focus on the improvement of short-term profits and even prefer short-term benefits. Chinese family enterprises are different from western ones in investment decisions. On the one hand, the principal-agent mechanism of Chinese family enterprises is not mature; on the other hand, the special market situation makes decision makers of family enterprises more uncertain on investment behaviors (Villalonga & Amit, 2006; Yang Shenggang & Tan Shuyun, 2013).

At present, there are many studies on decisions on investment and financing in academic circles, but these conclusions are not necessarily suitable for enterprises under other economic systems. American enterprises operate in a relatively mature, well-established and standard market but many emerging market economies including China have a relatively immature, imperfect and non-standard environment. Different operating environments may lead to different business behaviors. Under the background of Chinese transition economy, how should enterprises make decisions on investment and financing, how far are they from classic investment and financing theoretical models and what is the difference from enterprises in developed countries with respect to investment and financing behaviors? It's of great significance to accurately understand and deeply analyze current situation and issues about
investment and financing of Chinese enterprises so as to improve their investment and financing performance and develop theories related to family enterprises.

Chinese enterprises have inherent particularities in decisions on investment and financing, which is determined by Chinese investment and financing system on the one hand and by business capital structure on the other hand. The mainstream financing theory emphasizes that managers’ financing purpose is to maximize the profits of the enterprise in virtue of capital leverage. However, things are somewhat different for family enterprises. As family enterprise owners have a deep emotion investment in business, in addition to family wealth, non-financial objectives such as sustainable development, family reputation, family control power, etc. are more valued by family enterprises. Besides, family controlling shareholders have dominant positions in decision-making on financing, which explains the fact that the mainstream financing theory is inapplicable to the decision-making on financing of family enterprises. Some scholars, from the perspective of family enterprise owners, thought that family enterprises’ financing tends to seek a balance between increase of company value and maintenance of family interests. Family goal is an important factor to consider in the process of family enterprises’ financing (Morck & Yeung, 2003).

Firstly, since Chinese investment and financing system is unsound, the decision on investment and financing result of family enterprises is not the best theoretically. In theory, the more complete the capital market is, the more likely private enterprises break through the capital “bottleneck” of families to fully integrate the social capital outside the family and drive the governance model open. In reality, the “difficulty of financing” becomes an important obstacle to hinder the growth of small enterprises. The survey by All China Federation of Industry and Commerce in 2005 showed that 81.6% of the interviewed private enterprise owner thought it difficult to loan from banks, of which, 33.8% attributed to “cumbersome procedures”, 46.5% attributed to “strict mortgage and guarantee conditions for a loan” and 12.7% attributed to “too high cost of loan”. On the condition of limited external financing, more enterprises prefer internal financing. No matter of the paid-in capital upon the establishment of privately-owned business or of the owner’s equity, shares of enterprise owners account for 70%. The research by Development Research Center of the State Council shows that the reason why investment and financing reform becomes the most laggard part of reform of the economic system is not only that it’s dragged by the delayed reform of state-owned assets and enterprises but also that it adheres to the core content of traditional planned economy (i.e., resources is mainly allocated by the government) and has some “characteristics” incompatible with market-oriented economy which are derived during the gradual reform. The negative effects of badly laggard reform of investment and financing system include: first, both members of state-owned enterprises to go bankrupt and bad debts of banks to be dealt increase; second, state-owned enterprises are short of the ability of sustainable investment; third, private investment encounter numerous obstacles; fourth, due to lack of credit, savings are difficult to convert into investment (Guo Lihong, 2003); multiple reasons lead to serious deviation of family enterprises’ financing decisions from the theoretically optimal ones, further hindering the development of family enterprises (Chu

Secondly, the differences in capital structure lead to significant differences in decisions on investment and financing of enterprises of different kinds. An enterprise’s financing decisions include the selection of internal and external financing and the selection of different sources of external financing. The so-called internal financing means that an existing enterprise raises funds by virtue of its own accumulation mechanism or internal capital market within the enterprise group for its sustainable development and new investment projects. Profits accumulation of an enterprise is a typical internal capital. The external financing refers to the way in which an enterprise raises funds from an external capital market. Managers must seek external financing when they are faced with profitable investment opportunities but lack sufficient internal funds. An enterprise may issue two typical financing tools when carrying out external financing, i.e. “distance-keeping” and “control-oriented” tools (Fan Yin, 1998). Funds are an important resource for enterprise development and an important source for enterprise competitive advantages, but access to such important resource often means the loss of power. For example, business managers may give up part of control rights for external financing (including start-up financing) (Wasserman, 2017). Equity control often occurs during the normal operation of an enterprise (such as the convening of the general meeting of shareholders) while creditor’s rights control is random. However, equity control is often looser, since the income of shareholders may increase with the growth of profits of an enterprise. Therefore, shareholders are apt to agree with managers on investment decisions and business expansion. However, creditors may only get fixed income instead of sharing profit increase of an enterprise, so creditor’s rights control tends to conservative operation and low-risk decisions or even giving up a project or the whole enterprise.

A too-high or too-low proportion of creditor’s rights in the capital structure of an enterprise may lead to different tendencies of business managers to investment. On the one hand, if creditor’s rights is subject to too little control (i.e. the debt-capital ratio is too low), managers may be freer to apply internal and external assets to investment of new projects, even including high-risk or unprofitable investment, which can be called “over-investment”; on the other hand, if an enterprise is debt-ridden and possible to suffer from debt crisis at any time, hard constraint will be effective control on creditor’s rights; Business managers will have to give up profitable investment opportunities under compulsion or due to lack of confidence. Then “under-investment” will occur. Obviously, creditor’s rights control will help to correct managers’ behaviors in the event of over-investment of an enterprise, but in case of under-investment, it will exacerbate managers’ timid behaviors. Therefore, the optimal capital structure of an enterprise must strike a balance between expected “over-investment” and “under-investment” to minimize the sum of opportunity costs in both situations and maximize the value of expectations of the enterprise. The scale of controllable assets of an enterprise (enterprise boundary) and its optimal capital structure can be regarded as one-to-one correspondence. With the increase of the scale of controllable assets of an enterprise, the debt level in its optimal capital structure can be improved gradually.
Prevailing in the above analysis, maximized corporate profit is taken as the goal, but the priority of a family enterprise should be sustainable survival and then the maximized profit. Under the pressure of sustainable survival, it is unclear whether and how enterprises are seeking a balance between “internal financing” and “external financing”, or “over-investment” and “under-investment”.

2.3.3 Decisions on Diversification

2.3.3.1 Definition of diversification

Diversified operation is an expansion action taken by an enterprise to seek long-term development when enterprise development reaches a certain stage. Ansoff (1958) analyzed the development process of large American enterprises from 1909 to 1948 and summarized four basic directions for their growth: seeking growth in existing markets; developing new markets for existing products (i.e. market development strategy); introducing newly developed products to original markets (i.e. products development strategy); developing new markets by using new products (i.e. diversification strategy), as shown in the table:

<table>
<thead>
<tr>
<th></th>
<th>Existing Products</th>
<th>New Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Existing Markets</td>
<td>Existing growth strategy</td>
<td>Product development strategy</td>
</tr>
<tr>
<td>New Markets</td>
<td>Market development strategy</td>
<td>Diversification strategy</td>
</tr>
</tbody>
</table>

Later, Ansoff classified the types of diversification strategy in his monograph named *Business strategy* (1965): (1) horizontal diversification; (2) vertical diversification; (3) concentric circles diversification; (4) mixed-type diversification. Though Ansoff defined the diversification strategy according to products category, he didn’t conduct deep study on how to determine product category. However, the product relevancy is the key to the measurement of diversification degree of an enterprise in the empirical study.

Penrose (1959), the founder of the Theory of the Growth of the Firm, improved the definition of diversification strategy, and defined it this way in his works titled the *Theory of the Growth of the Firm: when a company begins producing new products (including intermediate products) without giving up its original product line, there will be great differences between the production and marketing of new products and that of original products*. Penrose’s definition (1959) is relatively broad, covering the increase of various finished products, the increase of vertical integration level and the increase of production and operation field of an enterprise. Besides, Penrose (1959) explained the motives for diversified operation from the perspective of resources and ability: *after a long time of accumulation, an enterprise may get various internal resources, especially the resource of decision-making ability. Enterprises which pursue expansion of operation scale are always strongly inclined to apply internal*
resources of its own to a bigger scope and better investment opportunities. Although Penrose’s definition makes up the deficiency of Ansoff’s (1958) definition of diversification strategy, she mixed the vertical integration and diversification of an enterprise, considering that vertical integration is one of the forms of an enterprise’s diversification.

To distinguish vertical integration from diversification, Gort (1962) published the first monograph titled *Diversification and Integration in American Industry* that made diversified operation a research theme and defined business diversification this way: “diversification can be defined as the increase of heterogeneous markets of a single enterprise. If the heterogeneity degree of production and operation activities is low or in a vertically integrated way, it shall not be deemed as diversification.” Gort utilized the increase of market heterogeneity to attest to the improvement in diversification degree, but the variables to measure market heterogeneity are mainly the cross elasticity of demands and the mobility of resources among different markets. For example, high cross elasticity of demands shows high degree of substitution of products and these products belong to the same market. Gort’s definition distinguished integration from diversification to some extent.

The definition of diversification hasn’t been universally recognized in academia. Rumelt (1974) thought that different researchers should define diversification according to their purposes of research. He regarded diversification as a kind of strategy formulation, i.e. an enterprise is diversified in nature; diversification is a strategy shown by the combination of limited diversified strength, skill or goal and new activity mode related to original activities. Rumelt’s definition of business diversification is merely instructional and short of elaboration as to the connotation of business diversification.

Chinese scholars’ research on diversification began relatively late, so great progress was made till the end of last century. Kang Rongping (1999) pointed in his works titled *Diversified Operation of Enterprises* that the key to understanding the meaning of diversification is to define relevant industry and market. Therefore, he defined diversification as: “enterprises are not only engaged in production and operation in various industries but also provide different markets with different products.” According to this definition, he also differentiated several concepts that might well be confused: the diversification of an enterprise is not the segmentation of its products but a kind of cross-industry behavior; product segmentation only means difference of products in the aspect of performance, quality, appearance, package, trademark, etc. in market competition but the products are basically identical in nature. Therefore, we should regard cross-industry characteristics of an enterprise as a basic element to identify whether it has implemented diversified operation. The concept opposite to diversification strategy is specialization strategy, which includes simplification strategy, serialization strategy and integration strategy. The simplification strategy means that an enterprise produces only a single variety of products in the range of some industry; while the serialization strategy means an enterprise produces a wide variety of products within the scope of some industry and the products belong to different markets; for example, furniture manufacturers produce not only household furniture but also office furniture; as to the integration strategy, an enterprise might provide only a certain variety of products to the
market although they are engaged in business operations in different industries. According to Kang Rongping, whether vertical integration belongs to diversification depends on the specific circumstances: If an enterprise only provides a certain variety of products to the market in the process of vertical integration while it doesn’t sell the products within its internal value link on the market but just sell them internally, this is a kind of specialization in essence; if an enterprise provides products of various value links to the market, for example, electromechanical manufacturers not only sell complete machine, spare parts, and production equipment but also provide the market with transportation and information services, this is essentially a kind of diversification related to the production process of enterprises. Different from Kang Rongping’s definition, Yin Yisheng (1999) emphasizes that, with the development of economy and changes in organizational structure, the content of business diversification has long been beyond the original meaning. He thought, from the perspective of business growth, that business diversification has two meanings in static and dynamic aspects. From the static view, diversification refers to the way that an enterprise deals with its products and services across more than one industry; while from the dynamic perspective, diversification is a behavior that an enterprise sets foot in a new industry.

In view of the scholars’ viewpoints above, this dissertation defines business diversification strategy as the diversified product or service strategy that an enterprise might implement in the process of operation oriented aiming at multi-types of clients. This definition mainly emphasizes the homogeneity of time and the heterogeneity of products, services and markets.

2.3.3.2 Classifications of Diversification

Difference in specific classification criteria and methods, disciplinary field and research category has given rise to different emphases of researches on diversification operation. Management science and qualitative research lay particular stress on strategic classification which involves much subjective judgment while finance and empirical research tend to industrial standards which are strongly objective and easy to handle. By sorting out the references, it is found that there are approximately following four kinds of diversification classification methods.

(1) Classification method based on business strategy: the strategic classification methods of diversified operation were firstly proposed by Wrigley (1970). He adopted the special ratio (i.e., the proportion of the sales amount of a certain category of products to the total sales amount) to classify diversified operation into four types: (1) when the proportion of a certain kind of products is greater than 95%, the enterprise is single business type; (2) when the proportion of a certain kind of products is between 70% and 95%, the enterprise is dominant business type; (3) when the proportion of any kind of products is smaller than 70% but the products are correlative, the enterprise is related business type; (4) when the condition is the same as (3) but the products are irrelative, the enterprise is irrelative business type. Based on the special ratio classification criteria of Wrigley (1970), Rumelt (1974) added related ratio and vertical ratio and expanded the diversified operation into nine categories: single business type; dominant business type classified into intensive type, diffuse type, vertically integrated...
type and dominant irrelative type; relative diversification classified into intensive type and diffuse type; irrelative business type; large-scale mixed type. The application of diversification strategy classification method is more common in qualitative research of management. However, as the criteria of such classification mainly depends on the researcher’s subjective judgment, it’s seldom used in empirical researches generally, especially empirical research on diversified operation in the field of finance.

(2) Classification method based on industrial standards: the key to defining the meaning and extension of diversified operation lies in the industries involved and the distribution of various industries. Compared with the strategic classification method, the classification method based on industrial standards features undoubtedly objective in evaluation and easy to handle. Among empirical researches on diversified operations, most scholars choose to adopt the industrial classification criteria to classify the types and measure the degree of diversification, especially the Standard Industry Classification (abbreviated to SIC) (Berger & Ofek, 1995; Lang & Stulz, 1994). Specifically, SIC has the following advantages: (1) integral; this classification method includes all sectors involved in the national economy; (2) authoritative; it is developed and issued by authorities and continuously renewed and adjusted according to the development of industries; (3) universal; with uniform classification criteria and detailed, comprehensive contents, it may be used for analysis and comparison for various purposes; (4) stratified; SIC coding rule is to classify all economic activities into ten large items and then divide each large item into several middle items, each middle term into several small items and each small term into specific items. The four levels are shown as one-digit, two-digit, three-digit and four-digit numbers; (5) similar and relative; with the classification from large items to middle, small and specific items, industries are more similar and relevant both in technology and market; (6) homogeneity in specific items; industrial activities involved in each specific item are less enough to meet the homogeneous market defined by Gort (1962). Generally speaking, the diversification classification method based on industrial classification coding mainly has the following problems. The industrial classification criteria are not uniform; it is difficult to judge and identify the relevant diversification including vertical integration and complementary diversification; the selection of broad and narrow classification criteria has a significant influence on the conclusion. For example, the conclusions may be quite different when three-digit and four-digit SIC are selected.

(3) Classification method based on business and economic geography: in addition to the above-mentioned methods, the economic geography concept is often used to analyze the diversification type of multinational enterprises. Geringer, Tallman & Olsen (2000) and Tallman & LI (1996) thought that the external expansion of enterprises is shown as the increase of product line, namely business diversification, as well as the expansion of business scope in a geographic sense, namely regional diversification. With the acceleration of the globalization process, more and more enterprises from emerging market countries have begun to develop overseas business and joined in the global competition where large multinational companies are playing a leading role. In this context, the research on regional diversification becomes a new hotspot (Wang Jiancheng, Mao Yunshi, 2006). The proportion of foreign
business (mainly referring to overseas business) is generally adopted to measure the regional diversification (Geringer, J. M., Tallman, S., & Olsen, 2000).

To sum up the above-mentioned definitions of diversification, this dissertation holds that diversified operation of an enterprise is a strategy to expand business towards a related or disrelated industry in order to realize rapid growth. This definition emphasizes the cross-industry characteristic of diversified operation and regards such characteristic as the basic criteria to judge whether an enterprise has implemented the diversified operation. In order to avoid the interference of subjective factors and facilitate the horizontal comparison with foreign research of the same kind, this dissertation adopts the objective classification method based on standard industry classification coding to identify whether the research samples have adopted diversified operation and which degree the diversification has reached. Besides, this dissertation restricts the discussion about diversified operation types in industry diversification and focuses on the irrelative diversifications on a low industrial relevance degree.

Although integrated definition is given to diversification, it is still pending whether Chinese family enterprises are willing to diversify and what kind of diversification modes they tend to adopt.
Chapter Three Environment Variables and Theoretical Basis

In complex situations, the industrial and institutional environment has an increasingly big influence on organizational strategic decision-making (Fredrickson & Mitchell, 1984; Maitland & Sammartino, 2015). According to Smith (2014), current researches on strategic decision-making shall take into account decision makers, decision-making model, situations of decision-making and other influencing factors comprehensively. According to scholars’ point of view above, the following analysis has been conducted about the situational factors of strategic decision-making of family enterprises, namely the industrial and institutional environment of China’s real estate industry; at the same time, this part summarizes the general theory of researches on strategic decision-making and offers an integrated strategic decision-making theory framework according to the unique industrial and institutional environment of China’s real estate industry.

3.1 Real Estate Industry and institutional Environment

In the transition economy, the rapid development and huge fluctuation of China’s real estate market are inseparable from intensive policy incentives and policy control. This dissertation systemically sorts out the issuance background and variation trend of policies towards real estate market to provide macro background information to the researches on decision-making of family enterprises in real estate industry; according to the characteristics of macro policies, the institutional environment of real estate industry can be divided into four stages (Liang, Guo & Gao, 2006):

(1) Regional pilot for housing reform and real estate market (1978-1991)

In 1979, the central government carried out the pilot scheme to sell housings at cost price of civil construction price, but employees were reluctant to buy houses because they could rent a welfare house at a low price.

In 1982, as the central government piloted the subsidized house selling programme, individuals only needed to bear one-third of house prices, which yielded more notable effect than before. However, because the country offered a great quantity of subsidies, it was unable to form an effective cycle of capital. Therefore, the pilot was canceled in 1985.

In 1986, due to the extremely low rent under the welfare-oriented public housing distribution system, no people wanted to buy houses; so the central government decided to raise the rent and staff salaries appropriately to reduce heavy burdens of staffs.

Till 1988, two years had passed since China began to launch the pilot of raising rent and subsidizing house selling, when there had been a precedent to go by for land grant and commercial housing had entered into the circulation area legally. Just as China’s real estate market was about to take off, the market-oriented reform of China encountered the most rigorous crisis. The price of commodities was determined by the administrative force in the
period of planned economy but by the relationship between supply and demand in
market-oriented economy. The biggest challenge is price reform in the process of reform from
planned economy to market-oriented economy. In 1988, the Chinese government decided to
carry out price reform while residents were withdrawing savings to buy goods in a large scale,
which made plenty of cash held by residents in stark contrast to the deterioration of national
finance. The country was anxious to withdraw part of funds from circulation by selling public
houses, but the residents still didn’t have strong demand to buy a house; the oversupply of real
estate market caused the industry to return to the old model of selling public housing at a low
cost. Thus, the model of increasing rent and subsidizing house selling came to an end. The
failure of price reform seriously hampered the development of the real estate industry. The
storm in 1989 caused great changes in political environment and people’s emotions and the
real estate reform stagnated completely.

The real estate reform in this period stagnated for two years when the growth of investment in
real estate fell sharply; even negative growth occurred in 1990. The real estate industry which
had initially sprung up in the previous stage met a great impact; some real estate development
and operation companies were revoked one after another, while even enterprises that managed
to survive were also in credit squeeze and could not remain in operation. The real estate
market was in great depression. A large number of buildings were unfinished due to
insufficient funds and China witnessed the first unfinished building tide. Ordinary residents
hadn’t completed the primitive accumulation of capital yet, the legitimacy of the real estate
industry had just been established and private enterprises especially family enterprises were
still in the embryonic stage, so the industrial and institutional environment of regional pilot
stage of housing reform and real estate market had no effect on strategic decision-making of
real estate family enterprises.

(2) Promotion of housing reform and real estate market across the country (1991-1998)

In November 1991, the central government required to promote the reform of urban housing
system across the country, officially restarting the previously stagnant real estate market. In
1992, the State Council clearly pointed out that “real estate industry ... will become one of the
pillar industries in the national economic development”; subsequently, the government
issued a large number of taxation and financial policies which were beneficial to the
development of non-public economy and real estate family enterprises ushered in a rapid
development stage. Both of two family enterprises in this research case were established
during this period. The first great leap of real estate industry was born in this context.

In 1988, there were 3,124 real estate companies in China and the number was maintained in
the first stagnation period; most of them were state-owned enterprises. In 1992, real estate
companies began to emerge on a large scale and soared to 12,000 by the end of the same year
and to more than 30,000 by 1993; in the corresponding period, many banks entered into
housing finance field, issuing loans to and even directly opening real estate development
enterprises; thereafter, state-owned enterprises with more capital and policy advantages also

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2 Document of the State Council in 1992 Notice on Several Issues about the Development of Real Estate Industry
set foot in real estate business, which really accelerated the ripening of China’s real estate industry (Chen, 1996).

Facing the previous overheated investment, the country began to restrict the adjustment and strictly controlled the land supply and the scale of investment in newly started real estate; China Securities Regulatory Commission (CSRC) also suspended the approval of the listing of real estate companies since 1994. Due to restricted financing channels, the whole real estate industry slowed down its pace of development; a large number of enterprises which were anxious to advance rashly but short of funds shut down during this regulation. Surviving family enterprises began to slow down their paces, pursued steady development and focused on the survival of enterprises instead of chasing profits; unstable market environment forced these family enterprises to develop more rationally and make decisions in a more reliable manner.

In 1998, the State Council asked all cities and towns nationwide to stop housing distribution. Since then, real estate capitals have finally entered the individual housing field, for which both state-owned enterprises and family enterprises were eager and the time for both of them to compete with each other was coming soon.


In 1998, upon termination of the welfare-oriented public housing distribution system, ordinary people who couldn’t obtain such kind of house have to buy commercial housing. In the corresponding period, the country further introduced a policy to require the financial system to fully support the real estate development.

After experiencing violent policy fluctuations around 1998, the growth rate of commercial housing sales area and of investment in real estate have fully increased since 1999. The recovery of real estate market injected a new impetus to economic growth and led to two-digit high growth of GDP.

In 2002, the land remising system was introduced, which filled the gap in the capital layout of China’s real estate. The land remising system required that all commercial lands should go through bidding transactions; lands entered the real estate market for transactions officially as commodity. Since then, key elements of the real estate market (namely capital and land) and the process system have been available and the feast of real estate was about to start.

In August 2003, the State Council clearly pointed out for the first time that “the real estate industry, which is highly associated with other sectors and has a strong driving force, has been a pillar industry of the national economy”. It also put forward that the sustainable and sound development of the real estate market was a favorable measure for the sustainable and sound development of the national economy, and that efforts should be intensified to extend credit support for eligible real estate development enterprises and projects.

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3 Document of the State Council in 1998 Notice on Further Deepening Urban Housing Reform and Accelerating Housing Construction
4 Document of the State Council in 2003 Notice on the Promotion of Sustainable and Sound Development of Real Estate Market (referred to as No. 18 Document)
Family enterprises have congenital sensitivity. Every time when significant incentive policies were introduced to the real estate market, a large group of family entrepreneurs would be attracted to join in real estate development; the participation of each batch of new members would contribute to more intensified market competition. Family enterprises which started business in the real estate field in the early stages have accumulated enormous wealth by virtue of first-mover advantages (Lieberman & Montgomery, 1988); later comers needed to acquitted themselves more remarkably in the aspect of resources and decisions to catch up with the first movers. In reality, however, as many later comers advanced rashly when chasing after the first movers, these followers who failed yet to find their feet could hardly escape the misfortune of capital chain rupture, merger or bankruptcy when the next round of regulation befell.

Table 3-1 Sampling Survey on Decision-making Structure (%)

<table>
<thead>
<tr>
<th>Time</th>
<th>Policy Content</th>
<th>Policy Implications</th>
</tr>
</thead>
<tbody>
<tr>
<td>1984</td>
<td>The first batch of real estate companies was established; interest-bearing capitals were united with real estate around the year.</td>
<td>A pilot means for exchange</td>
</tr>
<tr>
<td>1987</td>
<td>Planned sequence was developed for housing.</td>
<td>Products become legitimate</td>
</tr>
<tr>
<td>1992</td>
<td>The housing accumulation fund system was established and banks fully set foot in real estate business.</td>
<td>A fund supply mechanism</td>
</tr>
<tr>
<td>1998</td>
<td>To completely terminate the welfare-oriented housing and fully open personal mortgage</td>
<td>To create demand</td>
</tr>
<tr>
<td>2002</td>
<td>To establish land leasing system</td>
<td>A land supply mechanism</td>
</tr>
<tr>
<td>2003</td>
<td>No. 18 document regarded real estate industry as “the pillar industry of the national economy”</td>
<td>Everything was ready for industry development.</td>
</tr>
</tbody>
</table>

(4) Growth of real estate market independent of system control (2004— up to now)

After 2003, when all systems required for the development of real estate market had got ready, the real estate industry entered into an age of perfect market, and developed and exerted its influence in a way beyond expectation. Since 2003, the land price was interactive with house price, and the latter began to soar. The government thought that it could still control the house price, but the tendency of house price was completely beyond the government’s expectation under the comprehensive market mechanism. Both the central and local governments underestimated the power of market economy.

From 2003 to 2007, the central government and ministries and commissions introduced hundreds of regulatory policies to regulate three major elements, namely capital, land and
policy, involved in the real estate market. These policies should have been able to control the sharply rising house price, but people’s power in the market-oriented economy overwhelmed the government’s macro-control. It was not difficult to find through analysis that only a few regulatory policies of the central government were implemented by local governments, because the real estate has become an engine for the local economy and the money maker for residents. However, this is only the interest game between the central and local governments and residents in the domestic market, but the global macroeconomic environment hasn’t been taken into account yet. When Chinese nationals were arguing endlessly about the tendency of real estates, the global financial crisis quietly came in 2008, which was an uncommon window period for China’s real estate control.

The unexpected financial crisis threw the central government into internal and external problems – on the one hand, to regulate overheating situation of the real estate market, the central government needed to tighten monetary policies to limit the excessively fast development of the real estate industry; on the other hand, the impact of financial crisis made the economic growth badly damaged, so the monetary policies needed to be loosened. The dilemma caused dramatic changes in Chinese monetary policy in 2008: in the first half of the year, the monetary policy became “tight” from “moderately tight”; with the expansion of the influence of financial crisis, the central bank lowered the reserve requirement ratio for twice and reduced the interest rate in the second half of 2008 when the monetary policy became “moderately loose” to “loose” and the government policy also turned from tightening monetary policies to bailout. When financial policies were loosened quietly, local governments introduced policies to stimulate the development of the real estate market and the central government was very generous to develop a RMB 4 trillion rescue plan to stimulate the economy. These initiatives announced that the government turned its attitude from “control” to “bailout”. The control game which had lasted for many years came to an end and the system to encourage the development of real estate industry restarted. At the end of 2008, a crazy price boom and a wave of panic buying arose in the real estate market.

After missing the valuable window period in 2008, the central government’s regulation control of real estate market was almost a total failure. From 2009 up to now, the central government frequently had introduced thousands of real estate market control systems; after each system was introduced, a batch of enterprises would be strictly controlled and some enterprises would go bankrupt unfortunately. The regulation system restrained the house price in a short term, but led to stronger rebound (as shown below).
In the process of rapid development, China’s real estate field showed a typical phenomenon, that is, state-owned enterprises withdrew from and private enterprises entered the industry. In terms of the number of enterprises, in 1995, the state-owned and collective enterprises accounted for 95% of the real estate enterprises, but the private real estate enterprises (mainly family enterprises) only accounted for 5%; in 2015, the state-owned and collective enterprises only accounted for 8.6% but the private real estate enterprises accounted for 90.7%. In the aspect of output value, in 1995, the state-owned and collective enterprises contributed to 96% of the output value of real estate industry but the figure reduced to 14.5% in 2015, while the proportion of output value from private enterprises (mainly family enterprises) increased from less than 2% in 1995 to 84.8% in 2015. The two-eight distribution pattern also led to another serious problem that was the competition between private (family) real estate enterprises intensified increasingly. Besides, although the number of state-owned real estate enterprises declined, the output value didn’t reduce simultaneously and its scale was rapidly increasing.

In sharp contrast to the rapid development of the real estate industry, most family real estate enterprises are backward in strategic awareness, management method and decision-making ability, who generally lack strategic abilities such as the ability to foresee macro-situation, seize opportunities, and to research and develop new technologies and products (Rui Mingjie, Zhan Wenjing & Chen Jie, 2008) and lie in a state of “governing by non-intervention” with the flow of the macro-environment. The weak overall strength and poor anti-risk ability of real estate enterprises attributed to enterprises’ lack of crisis awareness and the impetus to study and innovate considering the sufficiently large and lucrative real estate market. In the context of new economic policies and increasingly fierce competition, these enterprises were faced with very serious and heavy challenges. Those real estate enterprises which were established in the early stages and rapidly grew through competition have gradually
established, by “learning by doing”, a set of their own strategic decision-making models and standards for decision contents that have high theoretical value and practical reference significance (Christensen, 1997). In contrast, state-owned enterprises in the real estate field were seldom influenced by either central or local regulation policies, because, to a great extent, the governments regarded state-owned enterprises as the main source of fiscal revenue and the key force to solve the employment problems. These enterprises even affected government decisions (Yang Fan & Lu Zhoulai, 2010).

3.2 Hainan: The Cradle of China’s Real Estate Industry

Hainan is one of China’s earliest special economic zones for the commercial development of real estate industry. Most of China’s successful people in real estate industry have gone through real estate development boom in Hainan. Therefore, Hainan is the cradle of China’s real estate industry as well as an important data source for scholars to explore the problems of China’s real estate (Cartier, 2001; Jiang, Chen & Isaac, 1998; Liu, Wang & Long, 2008).

In 1988, Hainan became the only provincial special economic zone in China. At that time, special economic zone meant money and opportunities in China, let alone the only provincial one. As a result, a crowd of people who had the dream of making a fortune flooded into Hainan. But due to poor infrastructure construction in Hainan, these dream-seekers’ housing and offices formed the basic demand of real estate there (Cadario, Ogawa, & Wen, 1992; Yeung, Lee & Kee, 2009).

In the initial stage in 1988, the average house price in Hainan real estate market had reached 1,350 yuan/m². In 1992, it soared to 5,000 yuan/m², attracting more capitals pouring into Hainan and bringing doubled growth in the annual amount of investment (Wang & Murie, 1999); almost all participants in the real estate market were bank debtors and a large number of loans were directly issued by banks even without being audited (Yuan Zhigang & Fan Xiaoyan, 2003). In the peak phase, more than 20,000 real estate companies appeared in the island where there were only 6 million people. All cases selected in this research were established in this period. Most entrepreneurs entering into real estate field then were family enterprises, who experienced the complete cycle of the real estate industry in Hainan from prosperity to decline and from decline to prosperity again and had a deep understanding for the fluctuations of industrial and institutional environment.

Among the vigorous trades in the real estate market in Hainan, there were only 30 percent of houses bought for living and business purposes; while the remaining 70% was hoarded for speculation. The real estate development upsurge which lacked industrial support could not be anything but a game. In 1993, the central government required financial institutions to stop making loans to Hainan real estate industry. After the monetary policy was tightened, more than 600 sites of commercial buildings in Haikou and Sanya became silent suddenly. The commercial housing backlog in Hainan where there were only 7 million people accounted for as much as 10 percent of the total backlog nationwide. Besides, another 280,000 hectares of land were vacant with precipitation funds of RMB 80 billion (Gan Yuanzhi, 2000). In 1995, the economic growth rate in Hainan fell from the first to the last in China (Wu Heli, 2003); the
crazy real estate market in Hainan fell into silence for up to ten years. Without escaping their dooms as well, the four cases herein fell into a long time of struggle and reflection, thus having deeper understanding for China’s real estate enterprises.

The overstocked real estates were actually the currency represented with reinforced concrete and were the assets deposited on the land. 95 percent of the “unfinished buildings” were concentrated in Haikou and Sanya; 70 percent and above were built with bank loans. The overstocked real estates were not only in a large quantity and costly, but also involved in a great deal of violations such as failure to go through complete formalities, multiple transactions and repeated mortgage due to complex subjects, methods of investment and sources of funds, and nonstandard market transactions. Ambiguous real estate titles, complicated economic relations and ownerships, and commonplace disputes over credit and debt appeared consequently. Real estate enterprises were terrified by the sight of unfinished buildings and incapable of continued construction, which restricted Hainan’s economic development over the past ten years.

Thinking in pain, Hainan real estate enterprises learned from the lesson that they must combine their own resources to explore a scientific development path. In 1996, Hainan put forward the development strategy to construct an island recreational tourism resort. Thereby, Hainan’s economy began to enter the recovery increase stage. In 1999, Hainan province began to deal with the overstocked real estate according to the requirements of the central government. In terms of supply, a tax free policy was issued for sales of overstocked commercial housing and provisions were given that for sales of overstocked commercial housing as economically affordable housing with limited price, the paid land-transferring fees would be returned to real estate companies in full. In terms of demand, Hainan provincial government introduced a number of policies to stimulate housing consumption. With the support of policies, the business state of real estate enterprises was improved. In the subsequent few years, the central and local governments repeatedly introduced a number of policies again. In 2006, twelve whole years later after the real estate bubble burst, the overstocked real estates in Hainan were disposed completely.

After experiencing the prosperity, glory, depression and downturn, Hainan real estate finally found its position and stepped into stable development stage. Family entrepreneurs growing in this process have realized more deeply the significance of strategic decision-making and developed their own distinct strategic decision-making styles during the long term practice.

3.3 Theory Basis of Strategic Decision-making

Different strategic decision-making models were given in different subjects. In the field of organizational behavior, strategic decisions refer to decision makers make consistent decisions with maximum value (Simon, 1986) based on the rational decision-making model. The so-called rational decision-making model means that decision makers should firstly define the

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5 Document of the State Council in 1999 Pilot Program for Disposal of Overstocked Real Estates in Hainan
problem, then make clear the decision criteria and determine alternative solutions and finally select the best solution (Harrison, 1999). This model just takes into account decision makers’ cognitive process and ignores the influence of external environment. Several decision-making models were given in strategic management field such as the typical quantitative strategic planning matrix (QSPM) which takes into account key external and internal factors (David, 1986; Gib & Margulies, 1991) but emphasizes decision makers’ subjective judgment and ignores the significance of objective information, making it difficult to find common laws (David, 2011).

The existing strategic decision-making model regards mature market, stable environment and fair competition as hypotheses. As a representative of the emerging economies, Chinese market has a lot of particularities, so the strategic decision-making of Chinese family enterprises may be different from that of the western ones.

Firstly, Chinese enterprises have developed for only 30 years. Most of the family enterprises are in the stage when the first generation of entrepreneurs controls the business, much younger than most western enterprises which have a history of a century (Neubauer & Lank, 2016). Most of Chinese family enterprises are difficult to complete a life cycle and there is no time for them to make strategic decision-making changes. The result of sampling survey on family enterprises on a large scale in six successive years from 1993 to 2004 shows that most of the family enterprises averagely existed for three years and only 10% of the food companies could survive for more than three years (Bao Yujun, 2005). The average life span of Japanese family enterprises is 30 years which is ten times as long as that of Chinese family enterprises. The average life span of American family enterprises is 40 years which is thirteen times as long as that of Chinese family enterprises (Li Huagang, 2006). Although a small number of Chinese family enterprises have developed for more than 20 years, they’re restricted in policies, systems, procedures or budgets because China’s economic system is still in the transformation period and market systems are incomplete. In strict accordance with Adizes’s (1988) theory about enterprise life cycle, Chinese family enterprises are in their early stages as a whole.

Secondly, in emerging economies, the government has too much interference in the economy. The ever-changing industrial policies seriously disrupt the development of the industry itself. Taking the real estate industry as an example, the central government regulated the industry for hundreds of times by means of finance, taxation, land and administrative control over the past ten years and each regulation brought huge fluctuations in the industry, leading to capital chain rupture and even bankruptcy of several enterprises and making strategic decision-making of family enterprises focus on fluctuations in external environment especially institutional changes.

Thirdly, state-owned enterprises and family enterprises are in unequal competitive positions in the real estate market. Chinese unique transition economy led to significantly different positions of state-owned enterprises and family enterprises, although they participated in market competition at the same time: state-owned enterprises have congenital legitimacy and resource advantages while family enterprises are much weaker in legitimacy and
disadvantageous in funds, resources and policies (Xu, Lu & Gu. 2014; Chu Xiaoping & Wang Xuanyu, 2004). In order to gain competitive advantages in unequal competition, family enterprises pay more attention to their own property right features when selecting strategic decision-making programs.

Furthermore, the degree of marketization is low in the emerging economies and management resources especially professional managers are deficient, bringing great challenges to the transformation of the management of family enterprises; the credit system in the emerging economies is unsound and public opinions and reputation supervision for professional managers are weak, leading to the occurrence of opportunistic behaviors and a substantial increase in transaction costs (Chu Xiaoping, 2002; Liu Yusheng, 2003). All these characteristics lead to the difference in decision-making of Chinese and western family enterprises, especially in strategic decision-making (Luo, 2003; Reisman, 1983).

In conclusion, due to fluctuations in external environment and restrictions of their own resources and capabilities in the process of development, most Chinese family enterprises could hardly go through a complete life cycle, which added great challenges to the research on strategic decision-making theory included in the life cycle theory of family enterprises. In strict accordance with Adizes’s (1988) theory about enterprise’s life cycle, Chinese family enterprises are in their early stages as a whole. However, few scholars have studied this issue up to now. Therefore, this dissertation presents an integrated analytical framework about the strategic decision-making theory of real estate family enterprises based on the above analysis (shown as Figure 3-2):

**Figure 3- 2 Strategic Decision-making Theory Framework**

Source: information sorted by the author

It can be seen from Figure 3-2 that in the development since China’s reform and opening-up, strategic decision-making of enterprises was fundamentally determined by the nature of enterprise. Especially in the real estate industry, state-owned enterprises can rely on their own monopoly on economic power and economic resources to develop the land regardless of the cost, while private family enterprises must take into account the cost of land and the development potential in future market, which is an intrinsic decisive factor that can be called “endogenous variables”. At the same time, what has a bigger influence on strategic decision-making of family enterprises is “exogenous variables” such as macro economy and macroeconomic environment, which includes, in addition to the market environment (determining the degree of imperfect competition in the market) in which enterprises are
located, macroeconomic situation, economic operation and periodic fluctuation characteristics, macroeconomic policies, industrial development policies and market access policies to encourage or limit private capitals. Among them, the fluctuations in the real estate market are heavily influenced by various changes in policies. Among the factors that influence strategic decision-making of enterprises, the nature of enterprise is internal cause and environment variables such as systems and policies are external causes. The combined action of external and internal factors determines the final formation of strategic decisions of enterprises.
Chapter Four Research Hypothesis

China’s real estate industry was born in the period when planned economy was transformed to market-oriented economy. It has dual attributes – the outcome of government policies as well as residents’ consumption; these dual attributes have strong conflicts and tension in a certain historical period. Over the past three decades, China’s real estate industry not only made great contributions to the Chinese economy, but also provided high-quality housing for hundreds of millions of residents, greatly improving the living environment. In this process, family real estate enterprises play an important role and formed their own unique business logic and behavior. To explore decision-making issues of family enterprises in real estate field can not only help to understand relevant problems of China’s real estate development under complicated situations, but also help to explore the unique decision-making behavior of family enterprises, making contributions to theory and practice.

Decision-making activities were the core of business management activities which run through the entire process and each aspect of management activities and had significant influence on business performance of enterprises (Dane & Pratt, 2007; Sterman, 1989). In the study of decision-making activities of enterprises, most scholars paid attention to state-owned enterprises and few to family enterprises; however, compared with state-owned enterprises, the decision-making of family enterprises was more easily to be influenced by founder’s attitude and external environment (Romano, Tanewski & Smyrnios, 2001). According to the previous researches, decision-making activities included two important subjects, namely, decision maker and decision object (Janis & Mann, 1977); this dissertation is consistent with previous researches, mainly exploring two important dimensions, namely, the model and content of decision-making of enterprises.

4.1 Decision-making Model of Real Estate Family Enterprises

Real estate, also called real property, is a general name of housing property and landed property, including land and permanent buildings and their derived rights and obligations on the land. Real estate development is a very complicated process, involving many departments. As various stages of real estate development (land requisition and demolishing, land grant, payment of land-transferring fees, adjustment of land usage, planning and approval, project site selection, adjustment of plot ratio, project bidding, project supervision, construction management, completion acceptance, advance sales, registration of property right and property management) shall be approved by the government, rent seeking behaviors may occur in these links which can be regarded as an access for corruption (Krueger, 1974; Hu Jinqiang, 2008; Zhou Tao, 2010). According to statistics, the development cost of real estate only accounts for 20% of the house price, the profits obtained by developers account for 40% of the house price and the remaining 40% is for “off the books expenditures”; the saying “where there is an official seal, there is corruption” has been verified in the real estate field.
(Tan Shukui & Zhang Hongxia, 2013). Among the multiple links, corruption most likely occurs in land leasing, planning and construction management.

Land leasing is the source of both development and corruption of real estate. The so-called land leasing is the paid land use right granting, that is, the government grants the right to use state-owned land to land users in certain years with compensation. At present, the system and method for land approval and management are unsound and there are many shortcomings and vulnerabilities which leave opportunities for some officials who have the examination and approval authority to seek renting, corruption and bribery and leaving opportunities for illegal developers to take advantages, making the land market a disaster area of corruption. In the link of land grant, vicious developers have enormous “energy” to offer bribes to government departments. They conspire with relevant government officials to acquire land use right in the form of free allocation or reduction or remission of land-transferring fees. Corruption in land leasing caused huge economic loss to the country. The “enclosure movement” which formed in the development zone craze in the 1980s created a number of multimillionaires and even megamillionaires as well as caused the loss of tens of billions in the revenue from state-owned land annually. In anti-corruption, some local sectors of land and resources were cleaned up completely, showing the severity of the problem (Liu Xiaojing & Wang Shanshan, 2011).

Planning is a very important link in real estate development. The so-called planning refers to the comprehensive layout and specific arrangement made by the municipal people’s government to achieve urban economic and social development goals in a certain period, determine the function, scale and development direction of the city, reasonably use urban land and coordinate urban spatial layout and construction. The significance of planning is mainly reflected by the approval and issuance of “one book and two certificates”, which is the key reason for the occurrence of corruption. According to the design of existing systems, the planning departments at all levels strictly restrict development enterprises. At the same time, their specific requirements for many systems are flexible. The system design conditions of “hard constraints and soft elasticity” provide relevant officials and developers with multiple rent-seeking opportunities (Qian Ying & Lao Yan, 2007).

In the construction and management process, there are many links easy to cause corruption, especially in the bidding process. For projects with contract awarding through bidding, there are opportunities for power-for-money deals almost in every link. From December 2011 to March 2012, Tan Shukui & Zhang Hongxia (2013) conducted an interview to 137 developers which further shows that corruption in real estate was positively correlated to government intervention, that is, the more monopolies the government sets, the more advantages the developers would take. 53% of the respondents believed that orders or projects may be obtained from the government through briberies, 70% of the respondents believed that land at a low cost could be acquired or favorable policies could be enjoyed by bribery and 72% of the respondents believed that governmental protection can be acquired to impose restrictions on competitors by bribery.

At present, the supply of construction materials, machinery, workers and other market resources is sufficient; the scarce and non-renewable land resources which are controlled by
the government have been an important source of competitive advantages for real estate enterprises (Zhou Senfeng & Xie Yuelai, 2005). According to the foregoing analysis, the main way to obtain land resources at a low price is to establish a political relationship with the government officials in the examination and approval department, thus reducing transaction costs. Although no survey results revealed the significant effect of legal factors on the bribery of developers, developers’ avoidance strategy is easy to succeed and can distort policies through bribery so that market transactions are carried out in abnormal channels (Tan Shukui & Zhang Hongxia, 2013). However, once detected, developers will be faced with huge economic losses or even criminal sanctions, which may mean the end of profit activities. Therefore, real estate developers are extremely cautious of decision-making.

Decision-making is the core issue of enterprise management activities, which runs through all aspects of the management activities. The selection of decision-making model is directly related to the rise and fall of an enterprise. Chinese and western family enterprises are significantly different both in nature and environment, of which Chinese family enterprises are more special and uneasy to copy Adizes’s (1988) enterprise life cycle decision-making model. This dissertation analyzes the decision-making model of two different kinds of enterprises in the real estate industry according to the property rights theory.

For state-owned enterprises, on the one hand, state-owned enterprises are owned by State-owned Assets Supervision and Administration Commission of the State Council (SASAC) and their executives only have management right; enterprise’s performance will affect the promotion of executives to some extent, but its role is limited. Due to lack of direct ownership, executives of state-owned enterprises are reluctant to bear the risk of business. The common practice is to make a collective resolution through collective decision-making (Yang Ruilong & Zhou Ye’an, 1998). As state-owned enterprises are related to the government naturally, executives of state-owned enterprises may obtain preferential policies and land even without rent-seeking behaviors; even if the decision-making includes illegal contents, individuals can escape from punishment with the collective decision-making method because the law cannot be enforced when offenders are numerous. On the other hand, the central government repeatedly emphasizes that state-owned enterprises should make decisions collectively in order to avoid business risks. In 2010, the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council of the People’s Republic of China required again that state-owned enterprises should improve rules of procedures, specify the decision-making rules and procedures according to “three importance and one greatness” system and complete the decision-making mechanism by combining public participation, expert consultation and collective decision-making 6. Therefore, under pressures from external management system and the negative incentives of internal property right attribute, executives of state-owned enterprises are inclined to adopt the collective decision-making method.

6 Opinions on Further Promoting the Implementation of “Three Importance and One Greatness” Decision-making System by State-owned Enterprises, 2010
For family enterprises, on the one hand, according to the definition of family enterprises herein, the founders of a family enterprise have the ownership and control the profits, so they have enough motivation to participate in the decision-making of the enterprise to guarantee the maximum profits. On the other hand, family enterprises are unrelated to the government naturally. In order to acquire policy and land superiorities in competition, family enterprises have to draw close to the government; as mentioned above, because there is off-the-books income in multiple links in the real estate industry, the decision-making behavior of enterprises may be in legal limbo. The relationship between an enterprise and the government is confidential; the less the number of personnel involved in the core decision-making, the lower the probability of disclosure of the decision-making information. So it is with the probability of legal punishment to decision makers. Therefore, under pressures from external management system and the negative incentives of internal property right attribute, the founder of a family enterprise is inclined to adopt the parental decision-making method, which is independent of the life cycle of an enterprise.

Based on the above research, this dissertation puts forward the first hypothesis:

**Hypothesis I:** Compared with state-owned enterprises, real estate family enterprises are more likely to adopt the centralized decision-making model.

### 4.2 Contents of Decision for Real Estate Family Enterprises

Contents of decision are another important dimension of the decision-making theory of an enterprise (Janis & Mann, 1977). The results of the above-mentioned research on the decision-making of Chinese family enterprises show that enterprise owners have the decisive decision-making power in finance, personnel and business diversification. Therefore, this dissertation respectively analyzes three important aspects of family enterprises, namely, decision-making on investment and financing (Agrawal & Mandelker, 1987; Childs, Mauer & Ott, 2005; Fama, 1978), decision-making on diversification (Denis, Denis & Yost, 2002; Ferris, Sen & Thu, 2010; Zajac & Bazerman, 1991) and decision-making on agency (Miller & Breton - Miller, 2006; Morck & Yeung, 2003; Tosi, Katz & Gomez-Mejia, 1997).

#### 4.2.1 Decisions on Agency for Real Estate Family Enterprises

After more than three decades of development, Chinese family enterprises began to enter the peak of generational shift successively. The selection of successors affects not only the current management transition but also the future business tendency of family enterprises, which is of great significance to Chinese family enterprises with a large proportion. For a long time, a rumor has been spread in China that great men’s sons seldom do well, which made the succession of family enterprises more complicated and aroused widespread concern from academia.

The most classical theory to be used to discuss about the generational shift of enterprises is the principal-agent theory. From the perspective that enterprises pursue profits, there is no
difference between family enterprises and other organizations. When selecting the successor in title, the founder of family enterprises may select the Pareto optimal combination from descendants and professional managers who are best for enterprise development (Zhou Qiren, 2006). This theory believes that people are rational economic men who will pursue their own maximized interests and have the tendency to self-interested behavior, opportunism and individualism. Therefore, managers, as the agent of shareholders, have the moral risk to embezzle corporate resources. Such risk will be increased due to asymmetric information between shareholders and managers, resulting that managers obtain private interests at the price of shareholders' benefit.

Compared with non-family enterprises, family members often serve as managers and company executives of family enterprises, so family shareholders and managers are unified in the identity of natural person. The consistency of interests between the family manager and controlling shareholder minimizes the agency cost. Therefore, the “stewardship theory” which is greatly different from the agency theory is more valued in researches related to the governance of family enterprises. The “stewardship theory” was firstly proposed by Barney (1990) and Donaldson (1990) who believed, from the perspective of psychology and sociology and based on the hypothesis that humans are kind by nature, that human beings were social and regarded managers of enterprises as “stewards” that were trustworthy, diligent and with highly organizational commitment. Managers’ altruism makes them have the motivation for self-actualization and collectivistic behavior tendency. They may pursue things other than material interests, such as reputation and prestige. Weng Xiaowei and Xu Jingjing (2015) believed that founders of family enterprises dislike risks, which will improve accounting conservatism and alleviate agency problems. Managers, as “stewards”, will regard their own interests as the component of a company’s overall interests, or even give up their own interests to achieve overall interests. Chinese family enterprises are established based on family members and take the family vision as the enterprise’s development target. Therefore, what a family enterprise pursues is not profit or scale maximization but the long-term development of the enterprise and the flourish of the family. This explains why “father-to-son” is a mainstream succession model, because fathers hope to achieve prosperity of the family and sustainable development of the enterprise through intergenerational succession (Li Xinchun, 2003).

The agency theory emphasizes on selection of the best agent from the market, but the stewardship theory emphasizes on selection of a suitable agent within the enterprise. However, neither of them defines a more specific scope or mechanism for the selection. In addition, the research basis of these two theories should be rational assumptions, rather than one-sided emphasis on self-interest or altruistic characteristics. These two theories can explain the succession issue of Chinese real estate family enterprises but are not comprehensive: the former ignores the current situation of lack of agents and incomplete supervision in Chinese market, while the latter ignores the difficulty that potential agents available in the family are very few and their quality is unable to be guaranteed.
By combining agency theory and stewardship theory, this dissertation argues that whether the founder of a Chinese family enterprise is willing to grant the right of agency to professional managers depends on not only the founder’s mind and ability (Chu Xiaoping & Luo Toujun, 2001; Miao Yinzhi, 2013). Firstly, the founder of family enterprises is a rational person, who is willing to study and innovate in order to gain profits. This is explained by the popularity of professional managers especially the headhunting market. Secondly, China introduced MBA education as late as 1991 (Guo Jianhang, Zhang Wei, 2013), so the mature business has been developed not more than 20 years; the stock of professional managers is limited and external professional managers are scarce, resulting to excessively high cost for search. Thirdly, China’s social credit system is incomplete, leading to excessively high cost for family enterprises to supervise external professional managers. It’s common to see professional managers filling their own pocket and running away with public funds. Unavoidably, the founder of family enterprises can only utilize informal family credit mechanism to replace external social credit mechanism to search potential agents within the family; cultivate talents and successors in the family enterprise and replace the supply of external social personnel. Fourthly, real estate family enterprises have industrial particularity. As mentioned above, real estate family enterprises are unrelated to the government naturally. In order to acquire policy and land superiorities in competition, family enterprises have to draw close to the government. Because there is off-the-books income in multiple links in the real estate industry, the decision-making behavior of enterprises may be in legal limbo. The relationship between an enterprise and the government is confidential; the less the number of personnel involved in the core decision-making, the lower the probability of disclosure of the decision-making information. So it is with the probability of legal punishment to decision makers. Therefore, under the external legal pressures and internal property right incentives, the founder of a family enterprise is inclined not to disclose the core business information to the outside world.

In conclusion, when selecting the successor, the founder of real estate family enterprises is inclined to adopt internal family credit mechanism to replace social credit mechanism, adopt the internal family cultivation mechanism to replace the social talent supply mechanism and protect the core trade secret with the blood relationship from disclosing. Based on the above research, this dissertation puts forward the second hypothesis:

**Hypothesis II: Compared with state-owned enterprises, real estate family enterprises are more likely to cultivate family members to be agents**

4.2.2 Decisions on Investment and Financing for Real Estate Family Enterprises

Investment and financing, as a value management process, is an important component of enterprise management. Whether the family management will cause difference between family managers and professional managers in financial decision-making is also reflected by these two aspects, namely, investment and financing.

4.2.2.1 Decisions on Financing for Real Estate Family Enterprises

The mainstream financing theory emphasizes that managers’ financing purpose is to maximize the profits of the enterprise in virtue of capital leverage. However, things are
somewhat different for family enterprises. As family enterprise owners have a deep emotion investment in business, in addition to family wealth, non-financial objectives such as sustainable development, family reputation, family control power, etc. are more valued by family enterprises. Besides, family controlling shareholders have dominant positions in decision-making on financing, which explains the fact that the mainstream financing theory is inapplicable to the decision-making on financing of family enterprises. Some scholars, from the perspective of family enterprise owners, thought that family enterprises’ financing tends to seek a balance between increase of company value and maintenance of family interests. Family goal is an important factor to consider in the process of family enterprises’ financing (Morck & Yeung, 2003).

Firstly, in financing decision-making, the family hopes to own the enterprise for a long term and is reluctant to give up control rights of the enterprise.

The blood relationship or kinship between family members maintains strong vitality in the operation and management of family enterprises. The closely related interest relationship between the family managers and family shareholders makes their blood relationship or kinship serve as a “steward” with lifelong commitment. To maintain the independence of the family enterprise and smoothly pass it on to descendants, family managers will reject external finance out of consideration for family interests and do not want creditors or other external investors to lend a hand to the enterprise. Claessens, Djankov, Fan & Lang (2002), according to their research, pointed out that the family shareholders were inclined to avoid debt in order to reduce the risk of the enterprise.

Secondly, in financing decision-making, the managers of family enterprises hope to make the enterprise long-lasting, so they try their best to avoid bankruptcy risk.

Based on the bankruptcy effect and free cash flow effect, Jensen& Meckling (1976) analyzed the financing problem of the listed family enterprises: on the one hand, the increase of liabilities will increase the financial burden of the company. Excessive debt financing may also cause the bankruptcy crisis. Therefore, controlling family shareholders reduce debt financing to avoid bankruptcy crisis; on the other hand, controlling family shareholders may use free cash flow for related transactions to obtain private benefits of control. If the company’s liabilities increase, the pressure to repay the principal and interest will influence controlling family shareholders on using free cash flow, resulting in reduction of private benefits of control they may obtain. Thus, controlling family shareholders will reduce the debt financing ratio.

The precondition for these scholars’ research is that external financing is easy to obtain, which is completely different from the situation of Chinese real estate family enterprises (see analysis of real estate industry herein for details). On the one hand, the non-market fluctuations in China’s real estate market make family enterprises dare not to use higher financial leverage; on the other hand, although Chinese real estate family enterprises need a large amount of capitals, it’s difficult for them to acquire these capitals from the external world especially the bank. See below for analysis respectively.
Non-market fluctuations in the real estate market: since 1990, Chinese government had regulated the real estate market for dozens of times in the form of interest rate, tax, land auction policy, housing purchase policy, etc. and each regulation brought huge fluctuations in the industry. The purpose of regulation was to make sound and stable development of the real estate market. In fact, it led to ups and downs of the real estate market, a large number of unfinished buildings and a lot of real estate developers running away, bringing a lot of uncertainties in development of the real estate market. This dissertation adopts records analysis, a qualitative research method, to systematically sort out the regulatory policies in the real estate market over the years, just to give a few typical examples as follows: in 1993, the first real estate upsurge occurred in China, when real estate development companies increased dramatically; real estate investment increased sharply; the real estate centering on speculation in land, steel and projects became very active. There were severe real estate bubbles and inflation; the economy was overheated. In 1993, the State Council introduced “State Sixteen”. In 1994, it introduced the Decision on Deepening the Reform of Urban Housing System, Law of the PRC on the Administration of the Urban Real Estate and Trial Regulations on Residential Mortgage. With the implementation of various policies, real estate investment rate was obviously slowed down and house price fell rapidly. At the moment, the economic inflation declined. Over the past three years and with the successful economic soft landing, the house price was controlled effectively. The real estate industry suffered a heavy setback from this regulation. Upon the releasing of the “State Sixteen”, large number of developers escaped with money. The real estate in Hainan and other places greatly undermined and the real estate industry fell into a downturn for several years. In 1997, Asian financial crisis broke out. China suffered a deflation and the real estate market was faced with hard times correspondingly. In order to stimulate domestic demand, in July 1998, the State Council issued the No. 23 document, namely, Notice on Further Deepening the Reform of Urban Housing System and Accelerating Housing Construction, to carry out reform of housing system and abolish the welfare housing, clearly putting forward “to promote the housing industry as the new economic growth point”. The welfare-oriented public housing distribution system had been comprehensively suspended since 1999 and housing distribution monetization system was promoted. With the implementation of the new housing system, the huge market demand activated the real estate market in the downturn and the real estate industry began to enter a new era of development. During this period, there were some problems such as unreasonable supply structure and disorder of the real estate market, bringing hidden troubles to the next real estate bubble. In August 2003, the State Council introduced the Notice on the Promotion of Sustainable and Sound Development of Real Estate Market (referred to as Document No. 18) which pointed out for the first time that “The real estate industry with high correlation degree and strong driving force has been a pillar industry of the national economy”. It also put forward that the sustainable and sound development of the real estate market is a favorable measure for the sustainable and sound development of the national economy and that the credit support shall be strengthened for eligible real estate development enterprises and projects. The “pillar industry of the national economy” established in Document No. 18 upgraded the “new economic growth point”
established in Document No. 23 in 1998. Besides, the point that “economically affordable housing is the subject of the housing supply system” established in Document No. 23 was changed to “economically affordable housing is policy related indemnificatory commercial housing”. By redefining the nature of economically affordable housing, the government meant no longer to provide indemnificatory housing for more than 70% of the low and middle income citizens, so most families had to buy or rent commercial housing. In 2005, house price rose rapidly and the issue of house price became the focus of the whole society once again. In order to control overheated investment, adjust the housing supply structure and stabilize the real estate price, the central government took comprehensive measures for the regulation of real estate. In 2006, the “State Sixteen” and its detailed “Fifteen Opinions for Nine Ministries and Commissions” were issued; in 2007, measures for land, credit and taxes to cool down the real estate industry were intensively taken in terms of land management, real estate order, speculation restraint (especially restraining foreign merchants to invest in real estate) and housing structure adjustment. Although the investment began to grow steadily and housing structure was improved to a certain extent, house price was still increasing. To the second half of 2007, although the growth of house price slowed down, the house price was still rising.

Difficulty of family enterprises in financing: funds required in the initial development stage of a family enterprise were mostly accumulated by itself. How to obtain much more funds through a variety of financing channels became a problem to be resolved urgently. In present circumstances, small and medium sized private enterprises including family enterprises are still struggling to raise enough funds by loan from the bank. China’s banking is highly concentrated, of which, the assets, deposits and loans of the four major state-owned commercial banks account for 63%, 70% and 61% respectively. However, their clients are mainly state-owned enterprises, especially large and medium sized ones. The high concentration of banking and lack of small and medium sized banks offering services for small and medium sized enterprises have been the important reasons for difficulty of small and medium sized enterprises in financing (Lin Yifu, Li Yongjun, 2001). In addition, private enterprises focused on family enterprises are passive to disclose their true information (Wang Xuanyu and Chu Xiaoping, 2002) and the information asymmetry problem between them and financial situations is serious. Besides, the social credit system is incomplete and the service offered by credit rating intermediaries is poor, making it difficult for banks to assess the credit status of private enterprises in accordance with the normal loan procedures. Due to poor credit and great uncertainty about operation, banks are very cautious about loan issuance, resulting in tedious loan procedures, low credit ceiling and short repayment period. Moreover, the intermediary guarantee system is unsound, so it’s often hard for the small and medium enterprises which are badly in need of support to apply for a loan. Taking Zhejiang province where the private economy is the most developed in China as an example, the loans obtained by individual and private enterprises from the bank only account for 10% to 20% of the total loans in the whole society, which is disproportionate with its position in half of the country’s economy. In addition, the direct financing restraints in China are too strict such as the issuance of shares by private enterprises to be listed and the issuance of corporate bonds by banks, making the usage cost of enterprise funds increased. Too strict restraints for private
enterprises to seek social financing may lead to unfavorable situations for the development of private enterprises and the utilization of private capitals (Li Zhanshu, 2003).

In conclusion, in terms of financing motivations, due to violent fluctuations in China’s real estate market policies and the vulnerability of family enterprises, they are reluctant to use external funds in order to avoid bankruptcy risks led by excessively high financial leverage. Besides, in terms of financing capacity, due to the special composition and service peculiarity of China’s financing market, the cost for family enterprises to seek external financing is much higher than that for state-owned enterprises. Although real estate enterprises need a large amount of funds for operation and family enterprises have been aware of the significance of external funds, they lack motivations and capacity for external financing (Chen, Kuo-Hsien & Tsai, 2007). Therefore, family enterprises are unable to adopt financing decision-making of high liabilities. Based on the above research, this dissertation puts forward the third (a) hypothesis:

**Hypothesis III (a): Compared with state-owned enterprises, Chinese real estate family enterprises are more likely to adopt financing decision-making of low liabilities.**

4.2.2.2 Decisions on Investment for Real Estate Family Enterprises

In terms of investment decisions, western family enterprises generally adopts principal-agent model, leading to great conflicts between controlling shareholders and professional managers in the investment philosophy: controlling shareholders aim to maximize shareholder’s wealth while professional managers aim to maximize private interests; the conflicts of interest between them may lead to short-sighted investment of professional managers (Wang Jing, Hao Dongyang and Zhang Tianxi, 2014). On the one hand, professional managers have a strong desire to build a “corporate empire” (Hart, 1995); on the other hand, as the material rewards to professional managers is an increasing function of corporate scale, the deviation from goals drives professional managers to pursue the growth of enterprise scale so as to maximize private material rewards. However, as the benefits of long-term investment can’t be obtained in a short term and have a high degree of uncertainty and risk factors, together with the assessment during the term of office, professional managers are very apt to being short-sighted in decision-making. Studies have shown that professional managers are keen on investment in projects with fast return to quickly establish their career reputation and even simply following most managers to invest to maintain the established career reputation and to avoid punishment for failure in investment, resulting in “sheep-flock effect”. Therefore, not as long-sighted as family managers, professional managers often focus on the improvement of short-term profits and even prefer project with short-term benefits.

Chinese family enterprises are different from western ones in investment decision-making. As mentioned above, Chinese family managers are inclined to adopt centralized decision-making. Professional managers serve as the executor rather than the decision maker; controlling shareholders have the absolute right of voice. In addition, due to the influence of traditional family culture, every founder of the family enterprise hopes that their enterprises may be long-standing and family wealth may be passed on to descendants. As controlling family
shareholders invest most of their funds in the company, they pay more attention to the company’s long-term performance due to the undiversifiable investment risks and long investment term (Villalonga & Amit, 2006; Yang Shenggang & Tan Shuyun, 2013). At the same time, the long-term orientation and far sight of family managers is the unique competitive advantage of family enterprises; “sustainable development” seems more important than “rank first” for family enterprises (Song Lihong & Li Xinchun, 2013). Therefore, in decision-making on investment, out of the consideration of the family’s long-term interests, family managers always have far-sighted investment perspective and focus on those projects which will bring long-term benefits.

Compared with the mature market system, China’s market system in the maturation process has a large range and high frequency in changes, causing family enterprises which are far from the core of policies hardly to grasp and respond to policy changes, but state-owned enterprises are different. On the one hand, principals of state-owned enterprises have the characteristics of civil servants, able to know the policy trend earlier; on the other hand, even if policy fluctuations have a negative influence, state-owned enterprises can seek policy asylum by virtue of their special identities. In order to acquire competitive advantages, family enterprises are trying to avoid competing with state-owned enterprises on a same stage and they hope to avoid policy fluctuations by arranging future industries in advance and acquire competitive advantages. Based on the above research, this dissertation puts forward the third (b) hypothesis:

Hypothesis III (b): Compared with state-owned enterprises, Chinese real estate family enterprises are more likely to adopt long-term decision-making on investment.

4.2.3 Decisions on Diversification for Real Estate Family Enterprises

As an important development strategy, diversification exists in many enterprises. In 1997, among the top 100 largest enterprises in the world, about 75% has implemented diversification (Li Jing, 2002). The diversification upsurge also occurred in Chinese enterprises in the early 1990s and was paid great attention from theoretical and business circles.

After decades of development, Chinese family enterprises were faced with profound changes in the survival environment. The vast majority of goods were in oversupply or relative surplus. The seller’s market at the beginning of market-oriented economy transformation changed to the current buyer’s market. The competition among family enterprises was increasing fierce. In order to survive and even develop in the fierce market competition, managers were faced with the difficult choice of whether to take a professional or a diversified path. For Chinese real estate family enterprises, the situation was more so. On the one hand, the stock housing increased dramatically, the growth rate of market scale was declining. Since the founding of China, Chinese urbanization process has developed rapidly; in 2015, Chinese urbanization rate reached 56.1% and the growth rate declined from 5% in 1996 to 2% in 2015. However, according to National New Urbanization Plan (2014 - 2020), the level of urbanization is expected to reach 60% by 2020 and the average annual growth rate will be about 1%.
Therefore, it is expected that, with the continuous slowdown of the urbanization process, the housing demand will not only decrease further, but also lack the power to rise again subsequently. On the other hand, in the limited market demand, the degree of market concentration is improved continually and industrial competition is increasingly fierce. In 2005, the top 100 real estate companies only accounted for 11% of the market share, but by the end of 2012, the top 50 real estate companies accounted for 21% of the market share. The phenomenon of survival of the fittest resulted from enterprise competition was obvious. The sales list of Chinese real estate enterprise in 2016 showed that the sales amount of three companies was more than RMB 300 billion and of 12 more than RMB 100 billion, accounting for 10% of the total market share. The degree of market concentration was further improved and the level of competition was further enhanced.

In the fierce market competition, there have been two distinct opinions on whether real estate family enterprises should be diversified or not. Opponents argue that family enterprises should use limited resources to focus on one area and maintain core competence, while supporters argue that diversification is an important way for family enterprises to break through difficulties to seek opportunities in the market.

Not supposed to be diversified: product diversification strategy requires a large quantity of investment and has the characteristic of high risks. When an enterprise enters a new industry, it’s often faced with a high cost for learning, including the purchase of patents and investment in imitation. For family enterprises which have high resource constraints, they are generally reluctant to take the high-risk diversification strategy (Zhang Yuming, Li Rong & Min Yijie, 2015). At the beginning of market-oriented economic transformation, the shortage of commodities in the planned economy era brought about many market opportunities in the external environment. The competition was not very fierce and the market was not very open. It was relatively easy to develop diversified business. In a sense, business diversification was more like a speculation or gambling in the early stage. However, the current market environment has changed fundamentally. The vast majority of goods are in oversupply or relative surplus. The seller’s market at the beginning of market-oriented economy transformation has changed to the current buyer’s market. The obvious external market opportunities have been less. Diversification will face the problem of survival or disappearance in the future. The speculative diversification is very likely to fail. Therefore, family enterprises should not implement diversification strategy but develop to specialization fields (Yu Yangang & Wu Jiaying, 2005). These studies emphasize great changes in the environment, but ignore the improvement of family enterprise managers’ capacity and the accumulation of resources.

Relative to fluctuations in the external environment, the fluctuations in resources and capacity of family enterprises may have more obvious influence on diversification decision-making. Li Xinchun, Zhang Pengxiang & Ye Wenping (2016) explored the influence of the improvement of family enterprise managers’ capacity on the diversification of enterprises. They found that the second generation of family enterprises with MBA experience pays more attention to risk aversion in decision-making on management, thus showing a conservative diversification
tendency after entering the family enterprise: after receiving systematical training in business risk analysis techniques, these successors have developed a strong ability of risk aversion. In order to establish the legitimacy of their succession and ensure the stable profitability of the enterprise during the succession period, they are more likely to choose the less risky specialization strategy so as to focus on the existing main family businesses and try to build unique competitive advantages in the market segment. The specialization strategy is possibly an extension of the main business of families as well as an in-depth exploration in business opportunities newly developed by their own.

Whether based on fluctuations in the environment or based on the opinion on managers’ capacity and cognition, both of them treat family enterprises and state-owned enterprises equally, without taking full account of the unique characteristics of family enterprises, such as serious shortage of funds, political discrimination and weak competitiveness. Without regard to these large prerequisites, to unilaterally emphasize the conservative characteristics of family enterprises and conservative behavior of managers would inevitably lead to a conclusion which deviates from the fact.

Diversified business strategy is an effective way to make family enterprises grow (Wiklund&Shepherd, 2008) as well as an important means for family enterprises to gain competitive advantage. To this end, this dissertation adopts AMC (i.e., awareness, motivation, capability) dynamic competition model and starts from the diversification based on awareness, motivation and capability to explore the decision-making behavior of family enterprises (Chen, Kuo-Hsien, & Tsai, 2007).

(1) Awareness-based diversification: upper echelons theory argues that the strategic choice and decision-making of an enterprise will be influenced by the cognition and ideology of the strategy maker (Hambrick & Mason, 1984). Based on their cognitive framework, managers may take different coping strategies and actions in different situations, while the difference in these strategies and actions is due to managers’ different education background, experiences, values, ages, etc. (Sciascia et al., 2013), so there is a difference in the ability and endowment of entrepreneurs. Although it’s very difficult to measure the variables in senior managers’ mental factors such as cognitive basis and values, upper echelons theory suggests that observable demographic variables can be used to replace variables of psychological factors, such as education background, work experience, in-service time and age. The first generation entrepreneurs of family enterprises were almost all starting from scratch and they experienced every link of the growth of the enterprise personally, understood every business area, had the longest in-service time and were the most experienced, so they are most likely to make a diversified decision. In addition, relative to state-owned enterprises, family enterprises can quickly obtain market information and give a timely response. Such flexibility is the key for family enterprises to maintain their market competition position as small and medium sized enterprises. This perspective emphasizes that family enterprises are not necessarily inefficient economic organizations and they may be more efficient than bureaucratic enterprises or markets in a particular socio-economic environment (Chen Ling, 1998; Chu Xiaoping, 2000). Second, more and more scholars stressed that the secret of family business success lies not
only in the flexibility and internal unity of individual enterprises, but more importantly, these business owners deeply rooted in the local network of interpersonal relationships, and rely on interpersonal network. An important social capital forms a professional network of inter-firm partnerships (Guanxi), which continues to gain market information and product technical knowledge (Chen Ling & Ying Li Fen, 2003); especially in a transitional market in China, the formal system (Guanxi) as an informal system, is an important alternative to the formal system, can bring heterogeneous resources and information to the enterprise, and ultimately improve the performance of enterprises (Park & Luo, 2001; Xin & Pearce, 1996). Second, more and more scholars stressed that the secret to the success of family enterprises lies not only in the flexibility and internal solidarity of individual enterprises, but more importantly, these business owners are deeply rooted in local interpersonal network, relying on which professional inter-enterprise partnership network (or Guanxi) is formed as an important social source, with a view to gain market information and product technical knowledge constantly (Chen Ling & Ying Lifen, 2003); especially in a transitional market in China, regarding the deficiency of formal institution, Guanxi, an informal system, is an important alternative to the formal institution, and can bring heterogeneous resources and information to enterprises with improved performance (Park & Luo, 2001; Xin & Pearce, 1996). Moreover, more and more scholars stressed that the secret of success of family enterprises lies not only in the flexibility and internal unity of individual enterprises, but more importantly, these enterprise owners are deeply rooted in local social networks and rely on these social networks which are important social capitals to establish specialized networks for inter-enterprise cooperation, thus continuously obtaining market information and product technical knowledge (Chen Ling & Ying Lifen, 2003). In order to realize sustainable development, many family enterprises are trying to find the weak links of the external environment and looking for possible opportunities in the external market. Once they believe that they have found few “cracks” in market competition, they would expand diversified business and hope that there will be “definitely possible” outcomes no matter whether they have the ability to seize the opportunity or not, or even give up their original business areas to implement diversified transformation (Yu Yanchang & Wu Jiaying, 2005).

(2) Motivation-based diversification: Penrose (1959), from the perspective of resources and capabilities, explained enterprises’ motivation for diversified business. He believed that after a long time of accumulation, enterprises developed a lot of internal resources, especially decision-making resources. These resources and capabilities have a range of application beyond the industry, and when they are transplanted to other industries, the marginal cost is almost zero while the revenue is in a large amount. Therefore, enterprises that have long-term resources and capacities for accumulation have a great motivation for diversification. At present, most of the first generation entrepreneurs of Chinese family enterprises are still in office. They have accumulated a large number of experiential knowledge and resource relations which can be quickly changed into cash in various areas. Therefore, the first

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7 The author would like to thank one reviewer’s proposal that Guanxi can more fully showcase the inherent role of social network of enterprises in China.
generation entrepreneurs of Chinese family enterprises have very obvious motivation for diversification.

This dissertation emphasizes the typical characteristics of family enterprises, such as financing difficulties and political discrimination, which are different from that of other types of enterprises especially state-owned enterprises and will have a significant impact on decision-making for family enterprises. Financing difficulty is a major factor to hinder the development of family enterprises, mainly due to the unsound social financing system and the unsound credit system of family enterprises their own. During the transition period, Chinese private enterprises mainly depended on internal financing and external financing was extremely limited. Therefore, capitals had been one of the scarcest resources for family enterprises, even more so for real estate enterprises with a demand for a large quantity of funds. Transaction cost economics emphasizes the internal efficiency of scope and scale and assumes that diversification can improve allocation efficiency because diversification has developed an internal capital market (Williamson, 1975; Teece, 1982). In order to solve financial problems, family enterprises can construct an internal capital market by virtue of diversification and take advantage of the cash flow from mature businesses or mature markets to support emerging business or emerging markets and decentralize the business risks (Zhang Jun, 2009). From this point of view, family enterprises have a greater motivation for diversified business.

(3) Competence-based diversification: enterprise diversification is the process of mutual matching between enterprise competence and external environment (Lou Yong, 2004).

Firstly, it is necessary to possess the competence and knowledge required for enterprise diversification. Core knowledge and competence lay a basis for diversified enterprise operation. A diversified enterprise means it has entered into a new industry. Without solid basis of core knowledge and competence, it is really hard to build up competitive advantages in a new field, and even the original business scope may be involved, then enterprise development is threatened immediately. Enterprise core knowledge and competence are achievements through internal collective learning, especially achievements obtained by negotiation in the production process and integration of diversified technologies. Different with physical capital, they will not be lost after using and sharing, but will continuously develop. Therefore, as achievements of the interaction and interpenetration among internal organization members, core knowledge and competence have obvious social complexity and certain independence as a whole, and it is difficult to quantize them into individuals or return them to be the sum of the parts. Meanwhile, they largely appear as informal implicit knowledge and can only be fully shared among team members who have some common experience (Parahalad& Hamel, 1990). Family enterprises always keep the stability of their core team members during the entrepreneurial process, and their founders engage in throughout their core business, during which a lot of tacit knowledge and competence form, and they are continuously consolidated and strengthened in the operation process later. Thus real estate family enterprises possess the basic conditions required by diversification.
Next, enterprise decision makers must be able to distribute core resources and competence to new businesses or markets. The founder of a real estate family enterprise has the ownership and the operating profit of the enterprise, so he/she has enough power to engage in the enterprise decision-making. Moreover, the owner as the founder and the leader of the enterprise has high authority and speaking right and thus may meet few barriers when making decisions.

Chinese culture and institutional environment speed up the diversification of family enterprises. In Chinese culture of several thousand years, “a poet from intellectual background insists that merchants make gains without doing any work and they are opportunistic, while his official identity makes him want to deprive merchants’ wealth with his national public power” (Jiang Peng, 2007:138). As response to such a kind of culture, Chinese merchants have developed the culture of “Never show off the wealth”, and an important way to decentralize the wealth and avoid attracting attentions of intellectuals and the government is diversified investment. Such kind of game playing in cultural level more or less affects the current investment decisions of family enterprises. In addition, a lot of researchers found that the primitive accumulation of capital of private enterprises more or less involves in original sin, which is most often characterized by tax evasion, environmental pollution, registered capital flight and illegal fund-raising (Li & Rozelle, 2004; Liu Guohui, 2013; Wu Jinqun, 2009; Wu Yuzhang, Zhang Shuguang & Zhang Weiying, 2004), and it often occurs in the real estate industry; implementation of diversification strategy and gradual reduction of the percentage of original business are also the important ways of entrepreneurs to get rid of original sin.

To sum up, compared with state-owned enterprises, real estate family enterprises possess both the consciousness required by diversification and diversification motivation and competence, which are strengthened by the system and culture environment. According to the research above, this dissertation proposes the fourth hypothesis as follows:

**Hypothesis IV:** Compared with state-owned enterprises, real estate family enterprises are more likely to adopt expansion strategies on diversification

4.3 Summary on Strategic Decision-making for Real Estate Family Enterprises

Through analysis on the research literature of strategic decision-making and review on the current operating state of Chinese real estate family enterprises, this dissertation proposes four basic hypotheses of the way and content of strategic decision-making of real estate family enterprises in China, and builds up the model of strategic decision-making of real estate family enterprises as follows:
Source: summarized by the author

Figure 4-1 Model of Strategic Decision-Making of Family Enterprise
Chapter Five Research Methodology

5.1 Multi-case study

Although scholars have done some research on the mode and content of strategic decision making in family enterprises, but these studies are not applicable to the Chinese context. In view of the importance of the strategic decision-making for Chinese family enterprises and the lack of relevant theoretical research, the author will start from classic decision-making theory combining with his own experience of decision-making experience in family enterprises. Explorations on how external environment and enterprise property ownership may impact their decision making and further influence the survival and profitability of enterprises. Since study on this problem is at an early stage and in lacks of theoretical basis (Chrisman, Chua & Sharma, 2005; Xian, 2007), this dissertation employs multi-case methodology to further refine the research topic (Ragin, Nagel & White, 2004; Yin, 1994).

Constructing theory through case studies is a research strategy that uses empirical data from one or multiple cases to establish theory or proposition. The core of this strategy lies with the replicable logic (Eisenhardt, 1989). Like a series of interrelated lab experiments, discontinues multiple-cases was used to repeat, compare and expand the theory developed (Yin, 1994). This dissertation choses multi-case study to lay a solid foundation for theoretical construction (Yin, 1994) and to provide various perspectives on explaining real problems. In addition, Multi-case study allows cross comparison and offers information on whether the discovery is specific to a single case of common for the most (Eisenhardt, 1991).

To present the process of strategic decision-making in family enterprises, this dissertation uses theoretical sampling and selects revealing cases (Eisenhardt and Graebner, 2007). Based on research questions and research objectives, cases selected shall meet the following conditions: ① in order to answer the research question, the research object must be relevant to the research question; ② research object must be representative—being the typical enterprise in the industry or with a history worth learning from; ③ guarantee on the access of information, which should be sufficient enough to understand the history from multiple perspectives and can be verified; ④ subjects should not be under the impact of other factors as much as possible. This dissertation adopts “polar types” sampling method (Eisenhardt & Graebner, 2007; Shah & Corley, 2006), and selects two distinguish types of enterprises for comparison, namely, state-owned listed companies and private family enterprises. Two similar companies are selected for each type to improve the repeatability of the case study. Using “polar types” sampling method, a researcher can sample extreme (e.g., private firms and public firms) cases.

8The author would like to thank the reviewers for their suggestions on case selection. In Chinese market, state-owned enterprises and family enterprises represent completely different ownership models and seem to be not comparable. But in fact, state-owned enterprises and family enterprises are not only two largest weighted enterprises in real estate industry (and other highly competitive industries), but also compete directly with entirely different decision-making logic, which is a very special phenomenon in Chinese market. According to the recommendations of Eisenhardt & Graebner (2007), Shah and Corley (2006) on the “polar types” sampling method, we believe that selection of these two types of enterprises as the research object ensures a clearer understanding of the decision making of family enterprises.
in order to more easily observe contrasting patterns in the data. Although such an approach can surprise reviewers because the resulting theory is so consistently supported by the empirical evidence, this sampling leads to very clear pattern recognition of the central constructs, relationships, and logic of the focal phenomenon.

Family enterprises and state-owned enterprises are selected for comparison for the following reasons:

Firstly, family enterprises and state-owned enterprises are completely different in terms of attributes. Xu, Lu & Gu (2014) distinguished these two kinds of enterprises from the perspective of population ecology: (1) in respect of origin, Chinese state-owned enterprises came into being with the establishment of the country with innate legitimacy, while family enterprises were eliminated and later evolved through collective enterprises with legitimacy; (2) property ownership is completely different as for state-owned enterprises and family enterprises. The former belongs to the public, while the latter is private; (3) state-owned enterprises and family enterprises belong to two completely different genres in a competitive relationship in the same market. Thus, this dissertation argues that state-owned enterprises and family enterprises are two extreme categories highlighted by Eisenhardt & Graebner (2007) and apply to the study of their survival and competition logic.

Secondly, family enterprises and state-owned enterprises are two of the most important competition subjects in Chinese market. According to the “Forbes Survey on China Family Businesses 2014”, as of July 31, 2014, among the 2528 A-share listed companies, there were 1,043 state-owned enterprises and 747 family enterprises, respectively accounting for 41.26% and 29.55 %, together accounting for up to 70.81% of the A-share market share with similar overall size. In addition, in the long-term competition process, these two types of enterprises each formed a unique decision-making logic and reached a balance in the competition: this dissertation summarized their performance data and found no big difference as shown in Table 5.1.

Thirdly, the main purpose of this dissertation is to explore the strategic decision-making of the family enterprises under the theoretical framework that the strategic decision-making is jointly affected by characteristics of family enterprises and external environment. As mentioned above, state-owned enterprises and family enterprises are two largest competitors in Chinese market. In a sense, state-owned enterprises themselves are external environment of family enterprises, so it helps to better understand decision-making of family enterprises by taking state-owned enterprises as comparative case.

Therefore, state-owned enterprises and family enterprises are not only different in the category, but also occupy an important position in national economy with a typical representative, applicable to the case study.

Table 5-1 Comparison of A-share Listed Enterprises (2014)

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9 “Forbes Survey Report for China Family Businesses 2014 (Chinese version)”
<table>
<thead>
<tr>
<th>Category</th>
<th>Number</th>
<th>Proportion</th>
<th>Growth rate of main business income</th>
<th>3-year mean ROE</th>
</tr>
</thead>
<tbody>
<tr>
<td>State-owned listed enterprises</td>
<td>1043</td>
<td>41.26%</td>
<td>13.10%</td>
<td>13.30%</td>
</tr>
<tr>
<td>Listed family enterprises</td>
<td>747</td>
<td>29.55%</td>
<td>17.10%</td>
<td>10.00%</td>
</tr>
<tr>
<td>Listed non-family enterprises</td>
<td>738</td>
<td>29.19%</td>
<td>16.50%</td>
<td>13.00%</td>
</tr>
</tbody>
</table>


5.2 Cases Selection

Following Whetten (1989)’s proposition of defining research boundary, this sets research boundary based on three scenarios: person, location and time. To limit disturbances from other factors, the geographic scope of this dissertation is set in Hainan province, China. Real estate enterprises are the objects of study, with their decision makers as objects of study. Selected companies are under the control of the first generation of founders (at the early stage of enterprise life cycle).

Real estate industry is chosen because it is easy to avoid bias result by controlling industrial variables when conducting research on a single industry. Also, the matured real estate industry has significant impact on the Chinese national economy (Liang, Guo & Gao, 2006). especially the Hainan real estate industry, which is the test ground of China’s real estate industry (Cartier, 2001; Jiang, Chen & Isaac, 1998; Liu, Wang & Long, 2008). In addition, among many players in the real estate industry, family enterprises and state-owned enterprises are two of the most vital ones.

Before nationwide real estate market was fully formed, Hainan real estate industry had already shocked by vicious investment early 1990s, followed by severe real estate bubble that greatly harmed local economy. We therefore selected Hainan’s real estate enterprises as research object. In recent years, thanks to a clearer industrial positioning and the booming developing of mainland real estate industry, real estate in Hainan struggled out of the predicament and embarked on a rational development track (Ma & Zhang, 2008). Many real estate enterprises have become direct promoter of Hainan’s transformation, though they are very different in the strategic choice. Experiencing such an economic transformation that even can be seen as a natural experiment, family enterprises, as a special type of organization, offer significant material to study real estate family enterprises.

Selection of the first generation entrepreneurs of real estate as research object is attributed to the reality that China’s real estate enterprises only have a short period of three decades and family enterprises are generally young with the first generation of entrepreneurs in charge of family enterprises compared with those in western countries (Neubauer & Lank, 2016). In
strict accordance with Adizes’s (1988) enterprise life cycle theory, Chinese family enterprises are still in its early stage.

To enhance multi-case comparability, this study selected different types of companies engaged in similar business in Hainan real estate market at the same period of time according to the principle of the same industry, the same category, the same sector, the same time, the same space and the same size to explore decision-making issues of the first generation entrepreneurs. The study chooses real estate enterprises that established before and after 1992 for the following reasons: In November 1991, the central government issued a programmatic document on real estate reform, requiring a nationwide implementation of urban housing reform from 1992 to 1993. Since then, stagnant real estate reform was revitalized and quickly rolled out to the whole country. On the following November, in the Issues on the Development of Real Estate, the State Council clearly point out that “as a new industry in China, real estate will become one of the pillar industries of national economy” defining the pivotal position of real estate in China. After Deng Xiaoping’s groundbreaking speech on the market-oriented reform in 1992, China promulgated a large number of taxation and financial policies to support the development of non-public economy. Township enterprises and private enterprises entered into a new phase of rapid growth.

In terms of enterprise size, this research refers to the ranking of real estate enterprises in Hainan Province over the years, and selected the top ten enterprises as the research object to control the differences in the strategic decisions caused by enterprise size.

Therefore, this dissertation selected 4 real estate enterprises of similar scale who based and operated in Hainan during 1992 to 1993 and are still operating, namely Agile, Shengyu Group, Pearl River Holdings and HNA Infrastructure.  

Relevant information is showed in the following table:

<table>
<thead>
<tr>
<th>Name of Company</th>
<th>Time of Establish</th>
<th>Place of Establish</th>
<th>Major Business</th>
<th>Nature of Enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shengyu Group (SYJT)</td>
<td>1993</td>
<td>Hainan</td>
<td>Comprehensive enterprises that integrates land development and construction, property management, hotel and tourism</td>
<td>Family enterprise, non-listed company</td>
</tr>
<tr>
<td>Agile (YJL)</td>
<td>1992</td>
<td>Guangdong (with major market in Hainan)</td>
<td>Various real estate project investment and development</td>
<td>Family enterprise, listed company</td>
</tr>
</tbody>
</table>

10 The author would like to thank a reviewer’s advice: because the author is a founder of one enterprise, so the analysis may be sort of subjective; In addition, except the author’s enterprise, there is only one private enterprise without representation. To this end, adhering to the principle of the same region, the same size and the same period, the author selected another private enterprise for robustness test, and once again confirmed the conclusions of this dissertation, see the discussion section and Appendix 3.
<table>
<thead>
<tr>
<th>Company Name</th>
<th>Year</th>
<th>Location</th>
<th>Activities</th>
<th>Ownership Structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearl River Holdings (ZJKG)</td>
<td>1992</td>
<td>Hainan</td>
<td>Real estate development, hotel and property management</td>
<td>SOE, listed company</td>
</tr>
<tr>
<td>HNA Infrastructure (HHJC)</td>
<td>1993</td>
<td>Hainan</td>
<td>Investment and development of real estate projects, airport investment operation and management</td>
<td>SOE, listed company</td>
</tr>
</tbody>
</table>

Source of data: summarized by the author after interview and survey

5.3 Case Study Data Collection

To build a complete and reliable evidence chain, first-hand data and secondary data was collected to verify each other. This study will collect data through multiple channels and conduct "triangulation" to enhance persuasiveness in analytical conclusions (Yin, 2009). To be more specific, data collection methods used in this dissertation include:

(1) In-depth interviews. The author conducted field observation and semi-structured interviews to collect first-hand information with senior managers and some external stakeholders from January 2000 to March 2017; 14 interviews were conducted and 30 hours was accumulated after 2 rounds of interview. Necessary information was supplemented or double-checked after each interview via telephone, e-mail, or face to face communication. The interview script is about 200 pages.

(2) Secondary data. To avoid result error caused by impression management and retrospective sense-making, the author also obtained data by collecting and summarizing secondary information. This data collection method that combines both qualitative and quantitative approach is also greatly advocated for case studies (Eisenhardt and Graebner, 2007). To be more specific, secondary information collected in this study includes:

- the relevant laws and regulations on the real estate industry during different periods of time;
- the annual statistics of real estate industry from National Statistics Bureau and the Ministry of Finance;
- data from the annual reports for three listed enterprises and the annual meeting minutes and annual review for the non-listed Shengyu Group;
- data offered by decision makers of the 4 enterprises during public interview;
- strategic decision and business performance data from mainstream media interview or reports. 3,000 pages of secondary information data was collected.

In the process of data collection, the details of the interview are specially arranged due to the difference in information comprehensiveness of each enterprise and administrative level of the interviewees as shown in Table 5-3. The Engaged Scholarship paradigm proposed by Van de Ven & Jing (2012), which pointed out that since each researcher is the product of a particular historical, cultural and disciplinary paradigm, his/her perspective is limited. Engaged scholarship allows researchers to explore the differences between relevant stakeholders to obtain a more profound consensus with convincing results when the research topic is very complex and beyond the limits of one’s cognitive capacity. This is crucially
important for researches grounded in local institutions and culture under the Chinese context. Thus, the author not only interviewed the internal and external stakeholders of selected enterprises, but also referred to a large number of national and local policies and relevant research report to improve the operability of a strategic decision making model based on an in-depth and comprehensive analysis. Upon the end of data collecting, case study database was established to record and organize both first-hand research data (internal materials, interview recordings, transcripts and tables summarized) and secondary data.

This dissertation aims to explore strategic decision-making models and content of family enterprises through multi-case study on Chinese real estate family enterprises based in Hainan province, with the purpose of improving strategic decision-making theory of the family enterprises and guiding the strategic decision-making practices.
### Table 5-3 Data Collection for Case Study

<table>
<thead>
<tr>
<th></th>
<th>Shengyu Group</th>
<th>Agile</th>
<th>Pearl River Holdings</th>
<th>HNA Infrastructure</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Interviewee</strong></td>
<td>2 senior vice president, S1 and S2; 2 mid-level executives S3 and S4 (non-family members)</td>
<td>President Y1 and Vice president Y2, and CEO Y3 who was recommended from outside but fired later; 2 mid-level executives Y4 and Y5 (non-family members)</td>
<td>To refrain from the leakage of the incumbents’ information, two previous CEOs Z1 and Z2 have been chosen as interviewees (they worked at the company for 4 and 5 years respectively)</td>
<td>To refrain from the leakage of the incumbents’ information, two previous CEOs and an ex board secretary have been interviewed. (They worked at the company for 4, 5, and 5 years respectively.)</td>
</tr>
<tr>
<td><strong>Manner</strong></td>
<td>Since the author is the founder of the enterprise, to refrain from the influence of his high-ranking position, an academic assistant was entrusted to do the interview. Later the author sorted the recordings, and supplemented the interview by emails.</td>
<td>Face to face talk, telephone interview, emails.</td>
<td>Face to face talk, telephone interview.</td>
<td>Face to face talk, telephone interview, emails.</td>
</tr>
<tr>
<td><strong>Number of</strong></td>
<td>4</td>
<td>5</td>
<td>2</td>
<td>3</td>
</tr>
</tbody>
</table>

11 See the outline of the interview in Appendix 2.
<table>
<thead>
<tr>
<th>people</th>
<th>Duration</th>
<th>Financial figures</th>
<th>Media</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>10</td>
<td>Past audited financial statements</td>
<td>Speeches of the company’s senior executives on various professional forums, such as people.cn(^{12}), soufang.com(^{13})</td>
</tr>
<tr>
<td></td>
<td>9</td>
<td>Past annual reports of the listed companies</td>
<td>Speeches of the company’s senior executives on various professional forums, such as finance.sina.com(^{14}), money.163.com(^{15})</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>Past annual reports of the listed companies</td>
<td>Comments of various security companies to the strategic decision-making of HNA Infrastructure</td>
</tr>
<tr>
<td></td>
<td>7</td>
<td>Past annual reports of the listed companies</td>
<td>Comments of various security companies to the strategic decision-making of Pearl River Holdings</td>
</tr>
</tbody>
</table>

Source: sorted by the author

\(^{12}\) [http://news.0898.net/house/n/2015/0630/c231203-25413629.html](http://news.0898.net/house/n/2015/0630/c231203-25413629.html)


\(^{15}\) [http://money.163.com/16/1124/14/C6L400MN00258056.html](http://money.163.com/16/1124/14/C6L400MN00258056.html)
Chapter Six Case Study

This dissertation defines the research boundary from person, location and time (Whetten, 1989). For purpose of controlling other interferences, the scope of study is limited to Hainan, China, the study field to real estate enterprises, the object of study to the decision makers of family enterprises, and the stage of study to the duration of the first generation of entrepreneurs of the family enterprises. In order to increase the comparability of the cases, four companies, i.e. Agile, Shengyu Group, Pearl River Holdings and HNA Infrastructure, which were established at the same time and engaged in different types of similar business in Hainan real estate market are selected, based on the principle of the same industry, type, business, time, space and level, as the objects of study to explore the decision-making by the first generation of entrepreneurs.

6.1 Case study on Family Enterprises

6.1.1 Agile (YJL)

6.1.1.1 Case Introduction of Agile

In 1985, when Chen Zhuolin was twenty-three-year-old, he led his four brothers to build “Era Furniture Factory” in his hometown, Sanxiang town, which was adjacent to Hong Kong and Macao, thus accumulating the family’s first pot of gold. In 1992, the five brothers initially stepped into the real estate industry and developed the first project of Agile Garden at Sanxiang, which was the starting point of Agile’s real estate business. Due to the accurate customer orientation and successful advertising, the company grew rapidly. In its heyday, Agile even accounted for 70 percent shares of real estate market in Zhongshan. Agile had opened the national market when it was listed on HKEX in 2005, with its real estates all over 18 cities such as Zhongshan, Guangzhou, Foshan, Chengdu, Xi’an, Nanjing, Sanya and Chongqing. In 2006, Chen Zhuolin launched Agile national development blueprint, planning projects in various major cities and districts. Nowadays, Agile has developed real estate business in more than 40 key cities and districts, including Beijing, Shanghai and Hainan. In 2014, Agile went abroad for the first time and marched on overseas market, purchasing two residential projects in the core area of Kuala Lumpur, Malaysia. In 2016, Chen Zhuolin started a diversified development strategy, and changed the company name to “Agile Group Holdings Limited”. Apart from the main business — real estate, the company also set up Agile Life Group, Environmental Group and Education Group etc, creating an integrated development model of multiple businesses.

According to the definition of family enterprise in this dissertation, Agile is a typical family enterprise. (1) Five brothers of the Chen clan hold 63% stock equity, and control major management departments of the corporate; (2) Members of the Chen family possess the full decision-making power on the major business issues; (3) Members of the Chen clan are deeply involved in business management; (4) The corporate ownership and control tends to be
transmitted intergenerationally. Though the domicile was not in Hainan, Agile entered Hainan soon after its foundation and regarded it as the most important real estate market, investing RMB 13 billion in Clear Water Bay real estate project in Lingshui, Hainan in 2005. For years, Clear Water Bay project has topped the list of sales in Hainan real estate market, shaping a good brand image and reputation and manifesting a unique competitive advantage.

6.1.1.2 Analysis on Decision-making Model of Agile

Agile, which was established in 1992, operated in a pure family management model in the initial stage. It was listed in Hong Kong in 2005, becoming a state-owned enterprise from a family enterprise, nonetheless in the Board of Directors, six executive directors are from Chen clan, including five brothers of the Chen clan (Chen Zhuolin, Chen Zhuoxiong, Chen Zhuoxian, Chen Zhuoxi and Chen Zhuonan) and Lu Qianfang, Chen Zhuolin’s wife. The five brothers held 63.75 percent stock equity of the group by direct and indirect shareholdings and the proportion of the stock equity had not decreased for several years. These family members firmly controlled all operational links, including strategy formulation, investment decision, operation, financing, sales, construction, decoration and property management. Eight vice presidents of the group were responsible to the six members of the Board of Directors according to the delineation of activities.

<table>
<thead>
<tr>
<th>Shareholder’s Name</th>
<th>Ultimate Owner</th>
<th>Proportion of Shareholding (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Coast Investment Limited</td>
<td>Chen Zhuolin, Chen Zhuoxiong, Chen Zhuoxian, Chen Zhuoxi and Chen Zhuonan</td>
<td>62.63</td>
</tr>
<tr>
<td>Mingsi Investment Co., Ltd.</td>
<td>Chen Zhuoxian</td>
<td>0.39</td>
</tr>
<tr>
<td>Yunxiong Capital Co., Ltd. &amp; Mingtong Investment Co., Ltd.</td>
<td>Chen Zhuolin</td>
<td>0.36</td>
</tr>
<tr>
<td>Chen Zhuoxi</td>
<td>Chen Zhuoxi</td>
<td>0.20</td>
</tr>
<tr>
<td>Chen Zhuonan</td>
<td>Chen Zhuonan</td>
<td>0.17</td>
</tr>
<tr>
<td>Accumulated proportions of shareholdings by the family</td>
<td></td>
<td>63.75</td>
</tr>
</tbody>
</table>

Source: the corporate annual report.

With regard to Agile, the Chen clan controls 63 percent stock equity of enterprise, which means more than half of the profits go to the family. Therefore, they are motivated to engage in decision-making of the enterprise and to ensure the maximization of corporate profits. On
the other hand, as a family enterprise, Agile has no inborn links to governments; to obtain advantages from policies and lands in competition, the family had to draw close to governments. Because many links of real estate business have grey components, the corporate decision-making may walk on the edge of laws. Most of the relationships between the enterprises and governments belong to the confidential information. The less number of people is involved in the core decision-making, the less likely the decision information is disclosed, and the lower probability that the decision makers are punished by law. Hence, under the external legal pressure and the internal property incentive, the founder of the family enterprise tends to adopt the model of parents’ decision-making. This decision-making model has nothing to do with the life cycle stage of the enterprise.

The practical situation of Agile verifies the hypothesis about the decision-making model of the family enterprises in this dissertation. Given that the incumbents have a stake in the enterprise and would not like to judge its decision-making mode, this research is supplemented by an interview with a previous CEO (Y3)\(^16\). According to Y3, many a senior executives or directors are acted by sisters-in-law of Chen family or their family members and friends; They are colleagues at work but friends after work, which leads to a serious phenomenon that only several persons doing all the talking without taking in other voices when it comes to decision-making, which has seriously impeded the development of the company; Worse still, Chen Zhuolin, Chen Zhuoxian and Lu Qianfang have long been a decision-making group of Agile management echelon, while the rest are more of executants. A research object said “Sisters-in-laws or relatives of the Chen clan hold many posts of top managers and supervisors of Agile; they are colleagues at work and relatives getting off work”. For a long time, Chen Zhuolin, Chen Zhuoxian and Lu Qianfang have been “Three-Person Decision-making Party” of Agile’s management. As a typical example of Chinese family enterprise, Agile has been called jokingly “Imperial Kinsman Cabinet” within industry and the most sincere “Band of Brothers”. In this imperial cabinet, the founder Chen Zhuolin, who not only holds the largest proportion of stock equity, but also has the highest reputation, has the full power of speech and adopts patriarchal decision-making.

The natural advantages of family enterprise have promoted development of Agile in a certain period. But the management model of “deciding everything by one man’s say” resulted in a series of errors in the product positioning and business strategy. Chen Zhuolin knew very well the system defects, and took measures of “disposing familization” in 2014 to transfer Chen Zhuoxian, Chen Zhuoxi, Chen Zhuonan and Lu Qianfang to non-executive directors from executive directors, delegate the sales administration power to regional directors, and to incorporate three professional managers into the cabinet.

Only five months after the reform of disposing familization, Agile suffered the most serious crisis since it had been listed. On October 10, 2014, this company announced that Chen Zhuolin, president of its Board of Directors, was subject to the “Residential Confinement at Designated Residence” by Kunming Procuratorate at night on September 30, which was not

\(^{16}\) Thanks for a reviewer’s suggestion. Compare to the incumbent’s views, those of previous CEOs are more objective.
removed and reinstated Chen Zhuolin until more than two months later. On October 16 of the same year, Huang Fengchao, executive director of Agile and regional president of Yunnan and Hainan Companies, was under investigation. It was verified later that this company had funneled benefits to local officials in the development of some tourism real estate projects in Yunnan. Being eager to build personal professional reputation, this newly appointed executive director advanced rashly, thus crossing the red line of law in the course of management and operation, and running the risk of capsizing Agile. The decision-making crisis of Agile immediately triggered a sharp reaction in the market: Moody’s Investors Service downgraded its corporate family ratings from Ba2 to Ba3, and senior unsecured debt ratings from Ba2 to B1; some banks collected the debts in advance, with the amount up to RMB 4 billion.

The myopia of the professional managers and special game rules of real estate industry forced Agile to abort the disposing familization reform: on October 10, 2014, Agile adjusted the list of Board of Directors, transferring the original non-executive directors Chen Zhuoxian (Chen Zhuolin’s brother) and Lu Qianfang to executive directors, acting as co-chairman of Board of Directors and co-president of the company to assist Chen Zhuolin in performing duties and responsibilities of chairman and president of the company. So far the familization reform which merely lasted for five months ended up with the return of the family members, Agile went back to the era of centralized decision-making again.

As shown in the following table, this dissertation summarizes the changes at four key time points of the composition of Board of Directors of Agile and acquires the following findings: the company inclined to conduct democratic reform in 2014; the proportion of non-family members of executive directors reached up to 60 percent once, though the situation lasted merely for one year; in 2015, when the family members took up not only over half of seats of executive directors, but also all seats of non-executive directors, the model of centralized decision-making and management by family members recurred.

<table>
<thead>
<tr>
<th>Table 6-2 Changes of the Composition of Board of Directors of Agile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Classification</td>
</tr>
<tr>
<td>Executive Director Name List</td>
</tr>
<tr>
<td>Chen Zhuolin</td>
</tr>
<tr>
<td>Chen Zhuoxiong</td>
</tr>
<tr>
<td>Chen Zhuoxian</td>
</tr>
<tr>
<td>Chen Zhuoxi</td>
</tr>
<tr>
<td>Chen Zhuoran</td>
</tr>
<tr>
<td>Lu Qianfang (Wife of Lu Qianfang)</td>
</tr>
<tr>
<td>Non-executive Directors</td>
</tr>
<tr>
<td>-------------------------</td>
</tr>
<tr>
<td>Chen Zhuolin)</td>
</tr>
<tr>
<td>Chen Zhuolin)</td>
</tr>
<tr>
<td>Chen Zhongqi</td>
</tr>
<tr>
<td>Proportion of Family Members</td>
</tr>
<tr>
<td>Proportion of family’s Stock Entity</td>
</tr>
<tr>
<td>Non-executive Directors</td>
</tr>
<tr>
<td>Chen Zhuoxian</td>
</tr>
<tr>
<td>Chen Zhuoxi</td>
</tr>
<tr>
<td>Chen Zhuonan</td>
</tr>
<tr>
<td>Lu Qianfang</td>
</tr>
<tr>
<td>Huang Fengchao</td>
</tr>
<tr>
<td>Liang Zhengjian</td>
</tr>
<tr>
<td>Chen Zhongqi</td>
</tr>
<tr>
<td>Proportion of Family Members</td>
</tr>
<tr>
<td>Proportion of Family’s Stock Entity</td>
</tr>
</tbody>
</table>

Source: the corporate annual reports over years.

At the beginning of the establishment of Agile, the centralized decision-making model enabled the company to make rapid decisions under the pressures of external competition and
internal instability, and to expand and occupy the market. Moreover, thanks to the centralized decision-making and fast advance and retreat, the low “cost of decision-making” and low “cost of conversion” contributed to the low administration cost of enterprise and the remarkable total effect on costs and expenses control, which met the needs of enterprise survival. With the growth of Agile, its founders were trying the democratic decision-making model, which failed to yield the anticipated benefits owing to the influence by external environment and the inherent characteristics of the company, but almost caused the bankruptcy of the company instead. Therefore, Agile resorted to the original centralized decision-making model. Chen Zhuolin pulled through and came back and stabilized the situation. The business performance of the company was improved distinctly.

6.1.1.3 Study on Agile’s Agency Decision-making

From furniture factory to an entrant to the real estate industry, from Zhongshan to the Pearl River Delta, from a common housing developer to tourism real estate — Hainan Clear Water Bay as an instant hit, the development and growth of the Chen clan could not do without the unique vision and valiant decision of Chen Zhuolin. However, it was just because Chen Zhuolin, Agile was trapped in crises for several times. The management model of “deciding everything by one man’s say” gave rise to a series of errors in product positioning and business strategies etc. The decision-making level and minority shareholders of Agile also realized the severity of the problem, hence regarding weakening the family power and strengthening the right of speech of the professional manager group as the urgent matters to solve.

Under the pressures of operating performance and public opinions, Agile promised to carry out the disposing familization reform in 2014. On March 28, 2014, Agile announced its decision to transfer the original executive directors of the Board of Directors, three of his brothers, namely Chen Zhuoxian, Chen Zhuoxi, Chen Zhuonan, and Lu Qianfang (Wife of Chen Zhuolin) to non-executive directors, promote Huang Fengchao, Liang Zhengjian and Chen Zhongqi to executive directors, and to delegate the sales power meanwhile. The five regional executives would take charge of all-round management for investment, acquisition of lands and marketing (As shown in the above table). As a typical family enterprise, it was an important upgrade to the company’s management structure that Agile ventured to promote professional managers to the Board of Directors. According to Agile, this was a part of improving the company’s management structure, and manifested the resolution and confidence of the Board of Directors to carry out reform. From this perspective, the founders of China’s family real estate enterprises are not as conservative and narrow-minded as what is criticized by the theoretical circle, but are willing to introduce professional managers for the sake of maximization of the family benefits. But it is difficult for family enterprises to have a complete control of such issues as the quality and competence of professional managers, and whether they can undertake important tasks.

The theoretical research turns out that there is a serious conflict between controlling shareholders and professional managers as to business philosophies. Because controlling shareholders’ goal is the maximization of the shareholders’ wealth, while professional
managers aim at the maximization of personal interests, the interest conflicts between them may cause the myopia of professional managers (Wang Jing, Hao Dongyang & Zhang Tianxi, 2014). On the one hand, professional managers strongly desire to build an “Enterprise Empire” (Hart, 1995); on the other hand, they tended to be shortsighted in investment decision-making. They were keen on investing projects with quick return to build professional reputation rapidly and even simply modeled the shortsighted behaviors of the majority of managers to maintain such reputation. The myopia was fully manifested in the professional managers of Agile. Only five months after the reform of disposing familization, Agile suffered the most serious crisis since the company was listed. On October 10, 2014, this company announced that Chen Zhuolin, president of Board of Directors, was subject to the “Residential Confinement at Designated Residence” by Kunming Procuratorate at nighton September 30, which was not removed and reinstated Chen Zhuolin until more than two months later. On October 16 of the same year, Huang Fengchao, executive director of Agile and regional president of Yunnan and Hainan Companies, was missing. The whole process was uncovered afterwards. It was found that being eager to build personal professional reputation, Huang Fengchao advanced rashly, thus crossing the red line of law in the course of management and operation, and running the risk of capsizing Agile. As an emergency response, Agile adjusted the composition of the Board of Directors instantly, transferring the original non-executive directors, Chen Zhuoxian (Chen Zhuolin’s brother) and Lu Qianfang to executive directors, acting as co-chairman of Board of Directors and co-president of the company, to assist Chen Zhuolin in performing the duty and responsibility of chairman and president. So far the familization reform which lasted for five months only ended up with the return of the family members.

However the agency disturbance of Agile did not cease hereupon, another trusted executive director Liang Zhengjian left office less than two years since assuming the position. Liang Zhengjian who entered Agile in 1996 (the company was founded in 1992), was a senior staff of company. He was responsible for business in south China region and reported to Chen Zhuolin directly, and was also involved in many important decision-making in south China region of Agile. When Liang Zhengjian worked for the company, Agile’s performance went well in south China. According to the disclosed information from the annual report of the listed company, the sales volume of Agile reached RMB 44.16 billion, including RMB 26.9 billion sales from the south China region that was under the charge of Liang Zhengjian, accounting for more than 60 percent. Agile started the reform of disposing familization on March 2014, at that time Liang Zhengjian was appointed as an executive director. However it did not last long, the decision-making power of professional manager was used for less than two years by Liang Zhengjian. Even though Liang Zhengjian had joined the company for 20 years and rushed into the front line to overcome the difficulties with the founders of the family enterprise, in the evening of December 1, 2015, however, Agile issued an announcement that the executive director Liang Zhengjian resigned his position because he needed to pay more attention to personal affairs, which took effect from December 1.
Within less than two years, among the three non-family member executive directors promoted in the reform of disposing familization, one made major mistakes due to craving success and advancing rashly and another resigned with unknown cause, which cast a shadow over Agile’s reform of disposing familization.

To sum up, in the reform of the disposing familization of Agile, the founders of family enterprises were willing to introduce professional managers for the maximization of the family benefits, but the rash advance and the competency problem of professional managers caused the reform to effect unsatisfactory, which made the company almost bankrupt instead of achieving profit maximization that the enterprises had pursued. Affected by multiple factors, the founders of the family enterprises could only replace the external social credit mechanism with informal family credit one to search for potential agents within the family, and replace the supply of external social talents with the internal training of successors to cultivate potential successors within the family enterprises. This further confirms the hypothesis about decisions on agency for family enterprise proposed in this dissertation, that is, family enterprises tend to select and cultivate their agents within the families.

After the implementation of cultivating agents internally, Agile not only stabilized the situation, but also developed rapidly: sales in 2015 increased by 12 percent year on year, the growth rate of sales reached 9 percent in 2016, with a net profit growth of up to 32 percent.

6.1.1.4 Study on Agile’s Investment and Financing Decisions

Investment and financing decisions are an important component of business decisions.

(1) Financing decisions: Financing decision is a kind of market behavior of an enterprise which makes use of certain opportunities and channels by economical and effective financing tools to raise necessary funds based on its demand of value creating target. It can not only change a company’s structure of assets and liabilities, but also influence its internal management, business performance and sustainable development. The mainstream financing theory stresses the financing purpose of administrators is to achieve the profit maximization of enterprise by means of capital leverage. However, things are somewhat different for family enterprises. the business owners have a deep emotional investment in the family enterprise; apart from the family wealth, the non-financial objectives such as sustainable development, family reputation, and family control power etc. are more valued by family enterprises. Moreover, family controlling shareholders have dominant positions in the decision-making on financing, which explains the fact that the mainstream financing theory is inapplicable to the decision-making on financing of family enterprises.

First, in the financing decisions, administrators of family enterprises, who hope to master long-term ownership of enterprises, are unwilling to give up the control of the enterprises. The blood relation or relatives among family members remain a strong vitality in the management and operation of family enterprises, the interdependent interest relationship between family managers and shareholders make the managers play a role of “steward” with a lifetime commitment. In order to maintain the independence of family enterprises and hand over them smoothly to their descendants, family administrators may exclude external finance for the
sake of family’s interest, unwilling to have creditors or outside investors involved in the enterprises. Research by Claessens, Djankov, Fan & Lang (2002) pointed out that the family shareholders inclined to evade debts for the purpose of reducing the risks of enterprises. Next, the administrators of family enterprises hope a long-term duration of the enterprises, trying to avoid bankruptcy risks when making financing decisions. Jensen, M. C., & Meckling (1976) analyzed the financing of listed family enterprises based on the bankruptcy effect and free cash flow effect: on one hand, the increase in debts may add financial burdens to the company, and the excessive debts financing may cause insolvency crisis; therefore family controlling shareholders reduced the debt financing to prevent bankruptcy; on the other hand, family controlling shareholders may conduct related party transactions by using free cash flow to acquire control power and private benefits, if the company’s debts increase, the pressure of repaying capital and interest will affect the family controlling shareholders’ utilization of the free cash flow, thus reducing the private benefits of control that can be obtained. So family controlling shareholders will decrease the proportion of debt financing.

The real estate development in China mainly gets loans from commercial banks. The source channel of loans is single. There are mainly three ways to get loans from banks, that is, real estate development liquidity loans, project loans and real estate mortgage loans. Contrary to the family enterprise, the state-owned enterprise pays more attention to the profit for the term in the financing instead of sustainable operation; thereby the state-owned enterprise may take a higher proportion of debt financing.

Real estate enterprises are highly dependent on capital, whose capital investment is large and payback period is long, this is the reason that the asset-liability ratio of real estate industry is higher than other industries. The data of Wind shows the average asset-liability ratio in the real estate industry of China was 77.50 percent. By the end of June, 2016, the data reached 81.33 percent, with a quick ratio of 0.42. As a whole, the Chinese real estate enterprises borrowed a large amount of money by senior notes and bank loans every year, because the interest rates of bank loans were generally high (the borrowing cost of private enterprises are higher), real estate enterprises had to pay a large amount of financial expenses and has certain financial risks.

In order to study the preference differences of financing decisions between family enterprises and state-owned enterprises, this dissertation selects and compares two important indexes, i.e. asset-liability ratio and financial expense, of four sample enterprises from 2005 to 2016. The asset-liability ratio is the percentage of total debts divided by the total assets at the end of year, reflecting the proportion of the total assets raised by debts, measuring the competence of the company to conduct business activities by using the interests of creditors, and reflecting the degree of security of creditors’ loans. In the context of this dissertation, the asset-liability ratio reflects the proportion of external funds that an enterprise utilizes, and a decision maker’s financing preference objectively as the result of business decisions on financing.

As shown in the following table, among the four cases, the asset-liability ratio of Agile was much lower than two listed state-owned real estate enterprises from 2005 to 2016; but
compared with Shengyu Group of the same trade, Agile’s asset-liability ratio was slightly higher. This statistics also indicates that both the overall average and annual values of the asset-liability ratio of family enterprises are distinctly lower than those of state-owned enterprises.

**Table 6-3 Statistics on Asset-Liability Ratio of Sample Enterprises from 2005 to 2016**

<table>
<thead>
<tr>
<th>Asset-liability Ratio</th>
<th>Agile</th>
<th>Shengyu Group</th>
<th>Pearl River Holdings</th>
<th>HNA Infrastructure</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>66.48</td>
<td>11.70</td>
<td>115.45</td>
<td>78.23</td>
</tr>
<tr>
<td>2015</td>
<td>64.20</td>
<td>14.50</td>
<td>105.51</td>
<td>75.85</td>
</tr>
<tr>
<td>2014</td>
<td>66.76</td>
<td>20.00</td>
<td>96.55</td>
<td>74.90</td>
</tr>
<tr>
<td>2013</td>
<td>68.07</td>
<td>14.50</td>
<td>88.64</td>
<td>66.87</td>
</tr>
<tr>
<td>2012</td>
<td>69.57</td>
<td>8.00</td>
<td>71.67</td>
<td>93.65</td>
</tr>
<tr>
<td>2011</td>
<td>70.95</td>
<td>6.50</td>
<td>63.78</td>
<td>96.75</td>
</tr>
<tr>
<td>2010</td>
<td>70.90</td>
<td>0.00</td>
<td>62.73</td>
<td>91.59</td>
</tr>
<tr>
<td>2009</td>
<td>65.88</td>
<td>0.00</td>
<td>64.31</td>
<td>92.49</td>
</tr>
<tr>
<td>2008</td>
<td>60.56</td>
<td>0.00</td>
<td>83.03</td>
<td>83.84</td>
</tr>
<tr>
<td>2007</td>
<td>68.53</td>
<td>0.00</td>
<td>70.89</td>
<td>99.95</td>
</tr>
<tr>
<td>2006</td>
<td>57.77</td>
<td>0.00</td>
<td>94.16</td>
<td>114.64</td>
</tr>
<tr>
<td>2005</td>
<td>53.12</td>
<td>0.00</td>
<td>81.59</td>
<td>91.23</td>
</tr>
<tr>
<td><strong>Mean</strong></td>
<td>65.23</td>
<td>6.27</td>
<td>83.19</td>
<td>88.33</td>
</tr>
<tr>
<td><strong>Max</strong></td>
<td>70.95</td>
<td>20.00</td>
<td>115.45</td>
<td>114.64</td>
</tr>
<tr>
<td><strong>Min</strong></td>
<td>53.12</td>
<td>0.00</td>
<td>62.73</td>
<td>66.87</td>
</tr>
</tbody>
</table>
Further researches find that, the fluctuating value (standard deviation) of the asset-liability ratios of the family enterprises are obviously lower than those of state-owned enterprises, which indicates that family enterprises were more cautious when making financing decisions, and made little changes in financing decisions at different time; while the fluctuation range of asset-liability ratios of the state-owned enterprises are wider, demonstrating their less prudent attitude for making decisions on financing than the family enterprises.

In conclusion, it is found, through the analysis of the asset-liability ratios of four cases, that the family enterprises were apt to adopt low-liability ratio decisions on financing, compared with non-family enterprises, which supports the hypothesis about the financing decisions of family enterprises in this dissertation.

Another important index to reflect the financing situation of an enterprise is the financial expense rate. The financial expenses refer to the expenses incurred by an enterprise in raising funds for the purpose of production and operation, including interest expenses (reduction in interest income), exchange losses (reduction in exchange earning) and relevant commission charges. The financial expense rate is the percentage of financial expenses to main business income. Generally, the higher financial expense rate indicates the higher external financing costs of an enterprise, which proves indirectly the high liability financing decisions adopted by an enterprise; the lower the financial expense rate indicates the lower the external financing costs of an enterprise, which proves indirectly low liability financing decisions adopted by an enterprise.

As shown in the following table, the average and annual values of financial expense rates of the listed state-owned real estate enterprises (Pearl River Holdings and HNA Infrastructure)
were clearly higher than those of family real estate enterprises, indicating that the family enterprises adopted the low liability financing decisions. According to the logical reasoning in this dissertation, it is less difficult for state-owned real estate enterprises to raise funds, and the interest rate preferences are greater, while it is found in the study that their financial expense rates are clearly higher than those of family enterprises, further proving that the state-owned enterprises adopted the high liability financing decisions, which further supports the hypothesis of the financing decisions of family enterprises of this dissertation.

Table 6-4 Statistics on financial expense ratio of sample enterprises from 2005 to 2016 (%)

<table>
<thead>
<tr>
<th>Financial expense ratio</th>
<th>Shengyu Group</th>
<th>Agile</th>
<th>Pearl River Holdings</th>
<th>HNA Infrastructure</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>12.00</td>
<td>2.41</td>
<td>33.02</td>
<td>34.30</td>
</tr>
<tr>
<td>2015</td>
<td>13.00</td>
<td>3.08</td>
<td>35.47</td>
<td>10.43</td>
</tr>
<tr>
<td>2014</td>
<td>18.00</td>
<td>0.76</td>
<td>45.59</td>
<td>10.16</td>
</tr>
<tr>
<td>2013</td>
<td>12.00</td>
<td>-1.11</td>
<td>48.47</td>
<td>8.02</td>
</tr>
<tr>
<td>2012</td>
<td>7.00</td>
<td>0.04</td>
<td>55.36</td>
<td>10.17</td>
</tr>
<tr>
<td>2011</td>
<td>5.00</td>
<td>-2.14</td>
<td>33.67</td>
<td>25.05</td>
</tr>
<tr>
<td>2010</td>
<td>0.00</td>
<td>-0.70</td>
<td>9.07</td>
<td>8.86</td>
</tr>
<tr>
<td>2009</td>
<td>0.00</td>
<td>0.45</td>
<td>16.96</td>
<td>9.53</td>
</tr>
<tr>
<td>2008</td>
<td>0.00</td>
<td>-1.69</td>
<td>48.41</td>
<td>11.58</td>
</tr>
<tr>
<td>2007</td>
<td>0.00</td>
<td>1.30</td>
<td>18.10</td>
<td>12.70</td>
</tr>
<tr>
<td>2006</td>
<td>0.00</td>
<td>1.87</td>
<td>3.19</td>
<td>7.70</td>
</tr>
<tr>
<td>2005</td>
<td>0.00</td>
<td>0.18</td>
<td>112.55</td>
<td>6.60</td>
</tr>
<tr>
<td>Mean</td>
<td>5.58</td>
<td>0.37</td>
<td>38.32</td>
<td>12.92</td>
</tr>
</tbody>
</table>
Further researches find that the fluctuating value (standard deviation) of the financial expense ratio of family enterprises is obviously lower than the state-owned enterprises’, indicating the family enterprises are more cautious in the financing decisions, little changes of financing decisions at different time; while the fluctuation range of financial expense ratio of the state-owned enterprises is larger, demonstrating a lower prudence in financing decisions than the family enterprises’.

In conclusion, either from the perspective of asset-liability ratio or the financial expense ratio, it proves the family enterprises are apt to adopt the financing decisions of low debt ratio, which supports the hypothesis of the financing decisions of family enterprises proposed in this dissertation. By financing decisions of low debts, the family enterprises not only avoid effectively the debt red line, but also able to achieve the rolling development effective with the help of cash flow.

(2) Investment decisions: in this aspect, the western family enterprises generally adopt the model of entrustment of an agent, resulting in large conflicts existing in the investment concepts between controlling shareholders and professional managers: due to the controlling shareholders’ goal is the maximization of shareholders’ wealth, while the professional
managers’ is the maximization of personal interests, the interest conflicts between them will cause the investment myopia of professional managers (Wang Jing, Hao Dongyang, & Zhang Tianxi, 2014). Therefore, professional managers merely focus on the improvement of short-term profits, or even prefer investing projects with short-term profits, due to lack of long-term views like family managers have usually. The investment decisions of Chinese family enterprises differ from the western ones. As previously mentioned, Chinese family enterprises tend to make centralized decisions, the role of professional managers is an executive instead of decision maker, and the controlling shareholders have an absolute power of speech. In addition, owing to the influence by the traditional family culture, every family founder hopes the long live of the enterprise and the succession of family wealth, benefiting the descendants. Because controlling shareholders invest most capital in the company, the indivisibility of investment risks and the long term of investment making them pay more attention to the company’s long-term performance (Villalonga & Amit, 2006; Yang Shenggang & Tan Shuyun, 2013). Meanwhile the long-term orientation and views of family managers are the unique competitive advantages of family enterprises; “evergreen of family enterprises” seems to be more vital than “taking the lead” for Chinese family enterprises (Song Lihong & Li Xinchun, 2013). As a result, for the sake of long-term benefits of family, family managers usually have a long-term view of investment, focusing on the projects which are able to bring long-term profits instead of short-term.

In the business landscape of Agile, the tourism real estate is one of the focuses of development. Agile is one of the earliest companies developing tourism real estate projects domestically. “When no one realizes that a project can achieve success, it often requires unique view and extraordinary courage from an entrepreneur”, which was a summary of the investment in Clearwater Bay project by Chen Zhuolin. In 2005, the 12 kilometers coastline lying in the southeast coast of Hainan Island still was wasteland, Lingshui County Government of Hainan adjusted and planned it as an tourist attraction, with a land development area of about 20,000 mu (1 mu= 0.0667 hectares). At that time, many real estate agents from Hongkong and inland inspected this project, but they all gave it up; Chen Zhuolin seized the chance to get the project which shocked the industry. “At that time few domestic enterprises realized the golden value extended by the coastline”, “the development of this project stemmed from the vacancy of domestic tourism market, superior geographical location and natural resources of Hainan Island, meanwhile Agile possessed the fundamental strength to develop industrial real estate. We attached greater importance to the future trends instead of the current profits”. Years later, Agile’s Clearwater Bay project has been a legend within the circle of real estate, also the beginning of tourism real estate boom: in 2009, the very year of opening quotation, the sales of Clearwater Bay reached RMB 6.4 billion; by the first half of 2014, the sales was up to RMB 45 billion, winning the championship of single projects many times in China. It created a record that sales of a single real estate reached RMB 9.9 billion, while Agile only invested RMB 14 billion in the whole Clearwater Bay project. This project brought Agile into an era of high margin which helped the Chen clan making big money.
When others from the same trade competed fiercely for the development of real estate, Agile began its new long-term investment: Chen Zhuolin settled on education this time. As of 2015, Agile had invested RMB 1.7 billion in schools totally, setting up 32 schools (27 kindergartens, 5 kindergartens through twelfth grade), a total of 12,054 persons. 89% projects under the operation of Agile were famous brand projects above the district-level, and most of them belonged to quality education schools, with outstanding features of school running, integrating the European and American’s educational systems and breaking a path of international school-running. In 2016, Agile Group positioned education as the key industry, established Agile Educational Group, determining the six major sectors of preschool education, K12, international education, higher vocational education, community education and online education, by virtue of operation system of parallel development both online and offline, and cooperated with Peking University, Hongkong International Education and domestic and international famous brand education institutions, creating an international educational enterprise with Chinese characteristics.

Either in tourism real estate or education investment, Agile showed a complete different characteristic with state-owned real estate enterprises, and obvious preference of long-term investment, which demonstrated the hypothesis that family enterprises more likely to adopt long-term investment decisions. Whether Agile’s long-term investment preference enhances effectively the future competitiveness of the enterprise, it is need more observation.

6.1.1.5 Study on Agile’s multiple decisions

From 2016 to 2017, major changes have taken place inside the company. Chen Zhuolin expressed firmly, “One is to maintain the lead in real estate, second is to develop diversification with efforts.” For this purpose, Agile hired talents and optimized the management structure.

As regards the diversified development, Chen Zhuolin emphasized to implement the diversification based on the main industry, real estate, rather than blind diversification, “We have started to plan the development strategy of diversification three years ago. I have also mentioned in the internal exchange that we did not transition, we did the relevant industries to diversification and the areas we are confident about. Hence through the three-year planning, we have progressed in property management, dividing ‘Agile Life’. Agile has developed the realty for 25 years, now we have 700,000 clients, we separated the mass group and provided services and supporting specially and optimized it into an industry to service the clients. In addition, the environmental projects were established in 2016. Through acquisitions and mergers presently, it will emerge from the whole industry and market. Meanwhile, we have also set up Educational and Construction Groups, whose team building have been complete”. For the development plan of diversified business, Agile has made a long-term planning scheme, “I believe three years later, we still lead in the realty, as for other four major industries, either the volume of business or profit, it will contribute 30% of the company performance. The planned goal of the company is increasing over 50% in the four major industries of the entire group in five or six years. The company’s development will not wholly depend on the realty: the four areas we selected are of promising potential, and the property
management, environmental protection, education and construction are planned to account for over half of the whole company’s performance.”

Property management is the new business growth point of Agile. Taking the community life service as an foothold, Agile Group gathered the nine major business sectors of property, internet technology, tourism, gardening, decoration, home furnishing and advertising design etc, through the platform of internet, achieved the diversified community industry management and created a comprehensive community service industry integrating quality property management platform, high-tech community internet platform and the whole product supply platform. Chen Zhuolin mentioned, at present "‘Agile Life’ of the property sector of Agile has been prepared to go public in Hongkon and other business of the company will be listed in spinoffs according to their development.”

Environmental protection industry was another strategic support of Agile’s diversified development; Agile Environmental Group devoted to be an urban comprehensive environmental services investment operator, providing platform-level system solutions and comprehensive environmental services to the urban environment. The subsidiaries of Agile Solid Waste Treatment Limited, Agile Environmental Restoration Limited and Agile Water Affairs Limited, focused on the areas of solid wastes, environmental restoration and water affairs, including hazardous waste disposal, domestic rubbish disposal, kitchen waste disposal, sludge treatment, soil environment remediation, water environment, sewage treatment and tap

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17Prepared according to the speech on “China Real Estate Finance Annual Meeting ·2016” on November 24, 2016 by Chen Zhuolin.
water production etc, almost covering all the pollution prevention and resource recycling except the air.

Educational career: In 2016, Agile Group positioned educational industry as the key industry, established Agile Educational Group, determining the six major sectors of preschool education, K12, international education, higher vocational education, community education and online education, in operation system of parallel development of both online and offline, cooperated with Peking University, Hongkong International Education and domestic and international famous brand education institutions, creating an international educational enterprise of Chinese characteristics.

Agile Hotel Management Company was set up in 2008, possessing more than 20 hotels in Guangdong, Shanghai, Jiangsu, Hainan, Sichuan, Hunan and Yunnan etc, which cooperated with 10 global international hotel groups, including InterContinental Hotels Group, Raffles Hotel Group, Jumeirah Hotel Group, Marriott International, Starwood Hotels and Resorts, Hilton Worldwide Holdings Inc., Howard Johnson Hotel, Capella Hotel Group, Hyatt Hotels Corporation and Haoruige Hotel Group etc.

In summary, Agile inclines to select diversified strategies in its expansion, and prefers relevant diversification, which supports the hypothesis of decisions on diversification of family enterprises this dissertation puts forward. This kind of diversification layout lays a foundation of future development of the enterprise, but it takes time to test its real effects.

6.1.2 Shengyu Group (SYJT)

6.1.2.1 Case introduction of Shengyu Group

Hainan Shengyu Group was founded in Hainan in 1993, which is a comprehensive enterprise integrating land development and construction, property management, hotels and tourism, owning Hainan Shengyu Investment Limited, Hainan Yuanshui Real Estate Development and Management Limited, Wuzhishan Jiuzong Industry Development Limited, Aershan Shengyu Real Estate Development Limited, Beijing Century Shengyu Investment Limited and many hotels and property management companies. The project development footprints have spread over cities like Haikou, Sanya, Wuzhishan, Aershan etc. From settling in Hainan Island, Shengyu Group determined the development direction of tourism realty, and developed tourism realty projects of Shengyu Garden, Shengyu Yishanju, Shengyu Coast and Flowers and so on in Sanya and Wuzhishan.

The founder, Wu Xiao has been active in Hainan’s real estate for years, having an absolute control of shareholding and participating in the decision-making of the group all along; many family members have assumed important roles in many subsidiaries of the group. According to the definition of family enterprises in this dissertation, Shengyu Group is a typical one: (1) Wu Xiao and his family members Cui Yong, Cui Kuan holding 100% equity of the enterprise, besides, the three brothers control the key management departments; (2) Wu Xiao and his family members possessing the complete decision-making power on major business issues; (3) Wu Xiao and his family members being deeply involved in business management; (4) the
company ownership and control tending to be transmitted intergenerationally. It is helpful to learn the unique decision-making model of Hainan real estate’s family enterprises by studying the strategic decision-making of Shengyu Group, which has great guiding significance to both the management theory and practice of family enterprises.

### 6.1.2.2 Study on decision-making model of Shengyu Group

Shengyu Group was founded in 1993, operating in a complete family model in the initial stage. The founder controlled 100% stock equity of the group and all the decision-making and business links firmly.

As the expansion of scale of operation of Shengyu Group, increasingly the founder has realized himself limit of vigor and hard to deal with all the problems of the business operation. Introducing professional managers is an important method to achieve the professional management. Shengyu Group realized the trusteeship of decision-making power and started the training of agents ten years ago. After years of experience and trail for many projects, Wu Xiao thought the non-family member agent trained internally had meet the needs of business operation, he handed the decision-making power over to the agent who was placed great hopes on confidently in 2016. However things went contrary to the wishes. The agent changed the mental attitude after obtaining the decision-making power, whose decision-making seriously deviating from the client’s expectation, the most typical example was the agent selecting a realty project of high risk and zero profit, this decision-making made the capital chain of Shengyu Group almost breaking. Having no alternative but to announce the project termination and cancel the decision-making power of the agent. Shengyu Group went back to the centralized decision-making model.

As shown in the following table, though after more than 20 years’ development, Shengyu Group still adopted the typical family centralized decision-making model; the founder family controlled 100% stock equity of the company.

<table>
<thead>
<tr>
<th>Shareholders’ names</th>
<th>Ultimate owners</th>
<th>Proportion of share holding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wu Xiao</td>
<td>Wu Xiao</td>
<td>48%</td>
</tr>
<tr>
<td>Beijing Century Shengyu Investment</td>
<td>Wu Xiao</td>
<td>32%</td>
</tr>
<tr>
<td>Cui Yong</td>
<td>Cui Yong</td>
<td>10%</td>
</tr>
<tr>
<td>Cui Kuan</td>
<td>Cui Kuan</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source: prepared by the writer; note: Cui Yong and Cuikuan are cousins of the founder, Wu Xiao
At the beginning of the establishment of Shengyu Group, the founder, Wu Xiao adopted the centralized decision-making model, which enabled the enterprise to make quick decisions in external competitions and internal instability, expanding and occupying markets, moreover, due to the low “decision-making cost” and low “conversion cost” led by quick advance and retreat resulting in the low management cost of the enterprise, the general effect of cost control was distinctly which met the needs of existence of the enterprise. As the growth of the enterprise, the founder has also attempted the democratic decision-making model, but the influence of the external environment and the inherent characteristics of the enterprise have not brought anticipated profit by this conversion, instead, almost making the enterprise bankrupt. Therefore, Shengyu Group returned to the original centralized decision-making model. Wu Xiao stabilized the situation, with the business performance of the enterprise increasing obviously.

6.1.2.3 Study on agency decision-making of Shengyu Group

“The wealth of a family doesn’t last three generations” is an epitome of the inheriting of Chinese family enterprises, making the inheriting of family enterprises more complicated, which attracts extensive concern by academic circles. Currently, there are mainly two theories on the inheriting of Chinese family enterprises, one is a principal-agent theory and the other is a stewardship theory. The principal-agent theory stresses selecting the optimal agents, with no need to consider much about whether the agents are family members. From the perspective of the pursuit of profits by enterprises, the family enterprises have no difference with other organizations, when the founder of family enterprises selecting the successors of the power, who may select the inheritance model most suitable to the development of the enterprise from children of the family and professional managers and select the optimal Pareto optimal combination (Zhou Qiren, 2006).

Differing form the principal-agent theory, the steward theory emphasizes selection of family members as the agents of family enterprises, this model is helpful to the unification of family shareholders and managers in natural persons, the consistency of interests between family managers and controlling family shareholders decreases the agent costs maximally.

Both theories can account for the inheriting issues of Chinese family enterprises of real estate, but neither is comprehensive: the former neglects the status quo of short supply and incomplete supervision of agents in the Chinese markets, while the later ignores the predicament of few potential agents for option and no guarantee of quality of agents. Moreover, both consider the minimization of agent costs and the maximization of profits from the perspective of economics which overlook psychological games played between the agent and the principal. On one hand, the principal of family enterprises tends to be more prudent and hopes to control the management of agents; on the other hand, the agents wish to make achievements by themselves, whose decision-making often deviating from the original intention of the principals. The principals should have exited decision-making and handed over the power to the agents, but in fact, they always wield the power; the agents should have
fulfilled their potential and displayed talents, as a matter of fact, they don’t have the real decision-making power usually.

The founder of Shengyu Group realized the inheriting issues of the enterprise early, and started training the agents over ten years ago. Considering that the grey features of the real estate enterprises analyzed in this dissertation, the family enterprises of real estate usually do not select publicly in the market, but tend to train inside the company, which is exactly the model of training agents internally chosen by Wu Xiao. In order to ensure the quality of agents, Shengyu Group used the training method of horse racing instead of talent-horses discovering, training many potential agents at the same time. Being different from the way of selecting agents inside the family the steward theory promotes, the agents trained by Shengyu Group are non-family members, “Comparing the potential successors inside the family and the external suitable successors, either for the professional proficiency or the development potentiality, the external personnel have larger potentiality”, Wu Xiao judged his initial agents-selecting decision in this way. From the perspective of the pursuit of profits by the enterprises, Wu Xiao’s selection more accords with the hypothesis of the economic men, being consistent with the principal-agent theory (Zhou Qiren, 2006).

After ability training and personality trail through many projects, Wu Xiao thought the non-family member agent trained internally had meet the needs of business operation, therefore he handed the decision-making power over to the agent with confidence in 2016. After the agents’ power was strengthened, who thought their efforts for years were gained recognition, preparing to display their talents and ambition. This is a good thing for the principal, which implies the incentive by the principal had effects, but the problem is their mental attitudes changed—they altered their senses and prudence of the training period, discarded the decision-making model and style of handling issues, increased their preference of risks, and accepted the uncertainty increasingly that never happened before. The psychological changes of the agents completely reflected in their decision-making deeds, Shengyu Group suffered an unprecedented crisis after managing by the clients: the clients selected a realty project with high risks and zero profits, this decision-making made the capital chain of Shengyu Group almost breaking. Having no alternative but to announce the project termination and cancel the decision-making power of the agents by the principal; only after half a year, Wu Xiao had to return to wield power. But the agents who failed accused the principal party interfering and destroying the project. The first conflict between the principal and the agent occurred inside Shengyu Group, the relationship built between them for over a decade crashed at once: the agent resigned for another job, and also took away another several potential agents trained by Shengyu Group. In the attempt of this entrustment of an agent, Shengyu Group not only lost tens of millions of capitals, but also six backbones of business trained for years, which was a deadly strike to the family enterprise of real estate which was extreme lack of human and capital resources.

After the agent left, Wu Xiao recalled the painful experience and decided to alter the original view, training the successors inside the family, “the successors who are trained inside the family, may be worse than the agents of non-family enterprises in professional proficiency,
and may make less profits for the company; nevertheless, these family members by no means walk away, nor advance rashly, they will maintain the operation of the enterprise at least.” The conversion of view of Wu Xiao reflects the demands of “the maximization of consistency of benefits between family managers and controlling family shareholders”, which is also the particular emphasis of “steward theory” (Donaldson, 1990; Barney, 1990).

At the beginning of looking for agents by Shengyu Group, the maximization of enterprise’s profits was considered more; the agents with strong professional ability were best candidates, being consistent with the idea of principal-agent theory. Through years of selection and training, the company considered the potential agents had reached the requirements in ability and quality, but neglected the possible changes of the agents’ mentality. After going through great setback, Shengyu Group gave up the first choice, and started to train successors inside the family in order to achieve the consistency of interests between the family and the agents.

To sum up, Shengyu Group and Agile did the same in agency decision-making, they all hoped to find more professional agents, which is not consistent with the view of “founders of Chinese family enterprises being narrow minded and unwilling to delegate powers”; both the enterprises found the principal-agent conflicts were difficult to reconcile until the agents really exercising powers, finally they had to give up the non-family enterprise agents and sought for agents within the family instead.

6.1.2.4 Study on investment and financing decisions of Shengyu Group

As the case study of Agile shown, in the four enterprises of the case, Shengyu Group’s asset-liability ratio was far lower than the two state-owned listed real estate enterprises’; comparing with Agile, it was also lower. The company did not even use any financial leverage for a time, developing all by private capitals. This statistics also indicates that whether the overall average or annual value of the asset-liability ratio, the rates of family enterprises are distinctly lower than the state-owned enterprises’.

Further researches finds that, the fluctuating value (standard deviation) of the asset-liability ratio of Shengyu Group was obviously lower than the two state-owned enterprises’, indicating the family enterprises are more prudent in the financing decisions, with little changes of financing decisions at different time; while the fluctuation range of asset-liability ratio of the state-owned enterprises was larger, demonstrating a lower prudence in financing decisions than the family enterprises’. Further researches finds that, the fluctuating value (standard deviation) of the financial expense ratio of Shengyu Group was obviously lower than the state-owned enterprises’, indicating the family enterprises preferred the lower asset-liability ratio, with little changes of financing decisions at different time. In conclusion, either from the perspective of asset-liability ratio or the financial expense ratio, it proves the family enterprises are apt to adopt the financing decisions of low debt ratio, which supports the hypothesis of the financing decisions of family enterprises proposed in this dissertation.

Apart from the indication by financial data, the research also conducted two rounds of interviews to the six senior executives of Shengyu Group, with an average interview time about 30 minutes per person once; this research is able to explore the motives and logic
behind the investment and financing decisions of Shengyu Group by organizing and analyzing
the content of the interview. Part of the interview and analysis conclusions are shown in the

table followed:

<table>
<thead>
<tr>
<th>Interviewers</th>
<th>Date</th>
<th>Summary of interview</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>S1</td>
<td>11/07/2016</td>
<td>The company was founded early, witnessing the development of real estate in Hainan or even in China. During the process, we have had several big crises, which resulting from the regulatory policies of the industry basically. The rise and fall of the policies, has brought opportunities to make profits, but also risks, therefore we would rather develop slowly by private capitals than the bankruptcy due to breaking of capital chains.</td>
<td>The regulatory policies of real estate industry intensify the possibility of enterprises’ bankruptcy, and reduce the willingness of external financing.</td>
</tr>
<tr>
<td>S2</td>
<td>11/07/2016</td>
<td>The development of real estate mainly relies on the loans, normally; we maintain about 10% external borrowings. There was once a time we increased the financial leverage about 20%, but in the time of shortage of money, it was hard to get loans from banks, we dared not later, the risk was too high.</td>
<td>The discrimination policy to family enterprises in financial industry decreased the external financing ability of family enterprises.</td>
</tr>
<tr>
<td>S3</td>
<td>11/07/2016</td>
<td>We have made many projects in many fields now, supporting the projects without profits by the ones with profits, though it develops slowly, we feel relieved.</td>
<td>Shengyu Group is inclined to build its own capital pool to achieve the rolling development</td>
</tr>
</tbody>
</table>

Source: prepared by interview records

As exposition in this sector, Shengyu Group tends to adopt centralized decision-making, professional managers are performers instead of decision makers, and the controlling shareholders have an absolute power of speech. Furthermore, due to the influence of traditional family culture, the family founder, Wu Xiao hopes the evergreen of the enterprise. Because the controlling family shareholder, Wu Xiao invests most of the capital in Shengyu Group, the indivisibility of investment risk and the long term of investment, making the founder pay more attention to the company’s long-term performance ( Villalonga & Amit, 2006; Yang Shenggan & Tan Shuyun,2013).
In the investment decisions, Shengyu Group has long realized the real estate industry near recession, and started implementing differentiation and business transformation years ago. From setting in Hainan Island, Shengyu Group began to determine the development direction of tourism real estate, and developed tourism realty projects of Shengyu Garden, Shengyu Yishanju, Shengyu Coast and Flowers and so on in Sanya and Wuzhishan. The so-called tourism real estate refers to the property state equipped with living, leisure, and vacation etc, based on the tourism landscape, taking the development of real estate as operation means.

The differences between the traditional real estate lie in: functionally, apart from the basic function of residence, also meeting the special needs of recreation and vacation tourism; higher consumption, more focusing on the balance of environmental, social and economic benefits; depending on the unique and rich tourism resources in external environment; paying more attention to the concept of theme in design, stressing the planning design of external environment and emphasizing the construction of supporting facilities; large scale and long period of investment, high rate of return and market risks. In addition, the company makes many crossover investments, doing foundation researches in healthy food and environmental protection, which all reflects the long-term investment trends of Shengyu Group. in summary, for sake of the long-term interests of the family, the decision maker of Shengyu Group has a long-term investment view, focusing on projects that can bring long-term benefits rather than short-term benefits.
### Table 6- 7 View record of investment decisions of Shengyu Group

<table>
<thead>
<tr>
<th>Interviewers</th>
<th>Date</th>
<th>Summary of interview</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>S4</td>
<td>12/10/2016</td>
<td>This company earned the first barrel of gold from the real estate market, but also lost much. For the moment, the golden time for Chinese real estate market has passed, we need consider the future development of the company. I think after the basic necessities of life satisfied, people will generate higher demands, such as health, therefore we have invested to set up health food company, environmental company and so on in recent years. Though these projects are in investment stage, with little profits, we think they are the future trends, and the foundation of long-term development for us.</td>
<td>Shengyu Group shows a preference of long-term investment</td>
</tr>
<tr>
<td>S5</td>
<td>12/10/2016</td>
<td>We have established cooperation with many scientific research institutions, and developed products with technological element. For example, we have a project of edible mushrooms that are homology of medicine and food, which are researched with Academy of Agricultural Sciences; after several years of research and development, it is in the market testing phase currently. The new product, through technologies such as the genetic improvement, integrates the nutritional ingredient of lucid ganoderma into the food, which has a promising market prospect. We are optimistic about it.</td>
<td>Shengyu Group focuses on the development of supporting technology in investment</td>
</tr>
<tr>
<td>6</td>
<td>12/10/2016</td>
<td>The country, over the past decades of rapid development, has damaged the land resources badly, with the heavy metal pollution and PH imbalance of lands very common. We set up a company in Tsinghua Science Park, through cooperation with units like the Chinese Academy of Science, Tsinghua University, researching and developing the technology of soil remediation; we have achieved good results currently, but still have a distance to the market promotion. Environmental protection is the future trends, which is the preferential projects of us.</td>
<td>Pay attention to the future trends instead of the current interests</td>
</tr>
</tbody>
</table>

Source: prepared by interview records

### 6.1.2.5 Study on decisions on diversification of Shengyu Group

After more than a decade of conditional extensive business model of emphasizing land, development and marketing, the real estate has gradually come to the crossroads of
transformation. How and where to transform have become the problems as thought about by Shengyu Group for a long time. Before several years, Shengyu Group has begun to conduct diversified strategic transformation from single tourism real estate to comprehensive tourism and holiday industries including tourism real estate, resort hotel and tourist attractions, etc. In terms of geographic distribution, the Group has determined strategic arrangement of “two mountains plus one sea”, in which “two mountain” refers to Wuzhishan in Hainan and Aershan in Inner Mongolia with “one sea” known as Sanya City of Hainan Island. Quasi-four-star Shengyu resort hotel and ice and snow experiencing park for tourists covering an area of 1019 acres developed by Shengyu Group in Aershan and Shengyu garden complex projects covering a total construction area of more than 110,000 m², are typical products in the process of diversified strategic transformation.

In recent years, Shengyu has carried out more exploration in decisions on diversification. The company has established cooperative relation with multiple scientific research institutions of Chinese Academy of Agricultural Sciences for developing food products with high technology content and high added value. For example, the company now has an edible fungus project of homology of medicine and food which has come in the stage of market test with several years’ research and development. The new product has good market prospects by virtue of merging the nutritional content of ganoderma lucidum into food through technologies like genetic improvement. Considering that land resources have undergone more severe damage with quite phenomena like heavy metal pollution and pH imbalance of land in China over the past decades of rapid development, Shengyu Group has established environmental protection company for this reason. Excellent achievements have been made through cooperation with the units of Chinese Academy of Science and Tsinghua University in the research and development of soil restoring technology. Furthermore, Shengyu Group tries to introduce internet thinking and model into the real estate industry and break through the whole industry chain of real estate in the main business area so as to realize organic combination of various business patterns of real estate for living, office, business, tourism, sports and entertainment, industry, agriculture, comprehensive use and other uses.¹⁸

In conclusion, Shengyu Group not only started earlier in diversification expansion, but also had a higher degree of diversification in expanded fields, which further verifies the hypothesis of “real estate family enterprises’ preference for diversification expansion strategy” put forward in this dissertation.

¹⁸ The founder Wu Xiao delivered a speech in cooperation signing ceremony of Shengyu Group and Beijing TianShiJie Internet Technology Co., Ltd in June 2015.
6.2 Case Study on Non-Family Enterprises

6.2.1 Pearl River Holdings (ZJKG)

6.2.1.1 Founder & Profile of ZJKG

Hainan Pearl River Holdings Co., Ltd. (ZJKG) is a limited liability company registered and established in 1992 by Hainan Pearl River Enterprise Holdings Co., Ltd., and approved by Hainan Provincial People’s Government Office and People’s Bank of China, Hainan Branch. The company went public in the same year, as the first A and B-share listed state-owned enterprise in Hainan Province. The major business of the company includes comprehensive development of real estate and general contracting for constructional engineering projects. In 1999, Pearl River Enterprise Group Co., Ltd. transferred all stocks of the company to Beijing Wanfa Real Estate Development Co., Ltd., thus the latter becoming the controlling shareholder of ZJKG. In 2016, Beijing Wanfa Real Estate Development Co., Ltd. transferred all stocks of ZJKG in hand to Beijing Grain Group (BGG), who became the largest shareholder of ZJKG. While BGG’s actual controller is State-owned Assets Supervision and Administration Commission of People’s Government of Beijing Municipality. Thus, SASAC of People’s Government of Beijing Municipality is the ultimate controller of ZJKG, holding 27 percent of its stocks.

6.2.1.2 Analysis on Decision-making Model of ZJKG

The dissertation sorts out the share distribution of ZJKG and comes to the following conclusions.
(1) Controlling shareholder holds only 29 percent of shares, without absolute discourse power in the company’s decision-making;

(2) The five largest shareholders of the company totally occupy 35.04 percent of its shares; the shares are excessively decentralized;

(3) The five largest shareholders of the company can be divided into four types in all, including state-owned legal person, foreign natural person, domestic non-state-owned legal person, and domestic natural person. Such high degree of diversification is adverse to communicating with each other and reaching consensus.

(4) The equity structure of the company is too complicated. The controlling shareholder is BGG, who is actually under the control of SASAC of Beijing Municipality. Multi-layer control and management relations resulted in substantial divergence of decisions and opinions.

To sum up, the multi-layer equity structure, shareholders’ diversified natures, and distributed shares of Hainan Pearl River Holdings Co., Ltd. gave rise to inconsistency of decisions and low degree of centralization.

### Table 6-8 Five Largest Shareholders of ZJKG & Shareholdings

<table>
<thead>
<tr>
<th>Shareholder’s Name</th>
<th>Nature of Shareholder</th>
<th>Shareholding Ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beijing Grain Group Co., Ltd.</td>
<td>State-owned legal person</td>
<td>28.95</td>
</tr>
<tr>
<td>LI SHERYN ZHAN MING</td>
<td>Foreign natural person</td>
<td>2.90</td>
</tr>
<tr>
<td>LI LEON ZHAN WEI</td>
<td>Foreign natural person</td>
<td>1.98</td>
</tr>
<tr>
<td>Bank of China — Harvest Service Value-added Industry Fund</td>
<td>Domestic non-state-owned legal person</td>
<td>0.61</td>
</tr>
<tr>
<td>Dong Xueliang</td>
<td>Domestic natural person</td>
<td>0.60</td>
</tr>
</tbody>
</table>

Data source: information sorted out by the author

### 6.2.1.3 Analysis on Decision Contents of ZJKG

The foresaid analysis result of shares shows that the equity structure of ZJKG is decentralized; the major shareholder BGG is a state-owned legal person, instead of a natural person. Thus the company’s agents do not belong to some family; instead, they are professional managers selected by BGG or SASAC of Beijing Municipality. Moreover, according to regulations of the *Company Law of the People’s Republic of China*, these agents shall change their terms of office every three years (or be reappointed consecutively).

### Table 6-9 Constitution of Executive Directors of ZJKG (2016)
Data source: the corporate annual reports.

The concept “agency cost” is utilized in the dissertation to expound and verify the hypothesis that “agents of state-owned enterprises are externally selected, while family enterprises’ agents are fostered inside families”. Agency cost was proposed first time in 1976 by Jensen & Mecking, who defined it as the sum total of losses in a principal’s benefits arising from the principal’s supervision cost, agent’s bonding cost, and disparities between agents’ decisions and those of principal that aim at welfare maximization. As far as family enterprises are concerned, as their agents are members selected from inside family enterprises, family enterprises will also adopt emotion encouragement in addition to material incentive. Therefore, their agency costs are relatively lower. While on the part of listed state-owned enterprises, they mainly adopt salary incentive means and are short of auxiliary encouragement of family emotion; thus, the agency costs are higher in comparison with family enterprises.

Xiao Zuoping’s (2006) agency cost measurement method is introduced in the dissertation to measure the agency costs that ZJKG spent on managers by means of overhead rate — the ratio of administrative expenses to incomes from main business. The statistical result suggests that the overhead rates of family real estate enterprises were apparently less than those of listed state-owned enterprises; the latter were even as much as ten times of the former in some years. It is indicated that listed state-owned real estate enterprises paid much higher costs to engage their agents from the market than family real estate enterprises, which supports indirectly the hypothesis that family real estate enterprises are inclined to select their agents from inside.

**Table 6-10 Comparison of Overhead Rates among Four Cases**

<table>
<thead>
<tr>
<th>Overhead Rate</th>
<th>Shengyu Group</th>
<th>Agile</th>
<th>ZJKG</th>
<th>HNA Infrastructure</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>10.00</td>
<td>3.12</td>
<td>33.02</td>
<td>8.60</td>
</tr>
<tr>
<td>2015</td>
<td>8.90</td>
<td>3.36</td>
<td>35.47</td>
<td>8.68</td>
</tr>
<tr>
<td>2014</td>
<td>8.00</td>
<td>3.75</td>
<td>45.59</td>
<td>8.64</td>
</tr>
<tr>
<td>2013</td>
<td>7.80</td>
<td>3.63</td>
<td>48.47</td>
<td>8.06</td>
</tr>
</tbody>
</table>
The analysis result about the asset-liability ratio of ZJKG indicates that the average value of asset-liability ratio and the numerical values in the survey years of the company were the highest among the four cases; insolvency even appeared in some years. It is indicated that the company preferred to adopt high liability ratio financing strategies. On the one hand, this is determined by its particular characteristics as a state-owned enterprise, as state-owned enterprises are inborn linked to governments. This intangible credit mortgage will facilitate it to acquire bank loans and external funds; on the other hand, as the decision layers of state-owned enterprises do not possess the ownership of enterprises, they do not consider the sustainable development of enterprises as prudently as founders of family enterprises, or concern about bankruptcy of enterprises as strongly as members of family enterprises. Thus, they are subjectively willing to and objectively able to accept more external funds, which even resulted in extreme conditions like insolvency. Moreover, since most of investment projects of ZJKG centralize in the real estate development field, the company lays more stress on current earnings but is less aware of long-term investment. Therefore, listed state-owned real estate enterprises prefer to make high liability ratio decisions on financing and short-term investment, compared to family real estate enterprises.

Currently, the main business of ZJKG covers three parts: real estate development, property management and service, and tourist hotel service. Among others, the company built up from the real estate development business, which accounts for the largest proportion (i.e. 69.04 percent); the tourist hotel service is an emerging business, accounting for only 3.41 percent. Compared with family enterprises like Agile and Shengyu Group, the company’s business is clearly less diversified, because, for one thing, the management layer of the company is short of the motive to conduct diversification strategy; and for another, the character of state-owned
enterprises also hinders its management layer from developing diversified, innovative businesses.

Table 6-11  2016 Statistics for Distribution of Diversified Businesses of ZJKG

<table>
<thead>
<tr>
<th>Business</th>
<th>Business Income (RMB 10,000)</th>
<th>Revenue Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Estate Development</td>
<td>65977</td>
<td>69.04</td>
</tr>
<tr>
<td>Property Management &amp; Service</td>
<td>26335</td>
<td>27.56</td>
</tr>
<tr>
<td>Tourist Hotel Service</td>
<td>3258</td>
<td>3.41</td>
</tr>
</tbody>
</table>

Data source: the corporate annual reports.

6.2.2 HNA Infrastructure (HHJC)

6.2.2.1 Founder & Company Profile of HHJC

Hainan HNA Infrastructure Investment Group Co., Ltd. is a typical state-owned limited liability company established in 1993 by Hainan the First Investment & Development Co., Ltd. in combination with Hainan Chuanjing Cooperative Trade Company, Hainan Phoenix International Airport Corporation and Hainan Guangda Guosen Real Estate Development Co., Ltd. by raising funds from targeted sources. In 2002, HHJC’s stocks were listed for transaction at Shanghai Securities Exchange. After several times of shareholding changes, the actual controller of HHJC’s assets — the Trade Union Committee of Hainan Airlines Co., Ltd. — became the final actual controller of the company from 2012, who served no more as the actual controller again since 2015. Then the actual controller of the company changed to Hainan Province Cihang Foundation. The company was renamed Hainan HNA Infrastructure Investment Group Co., Ltd. in 2016.

6.2.2.2 Analysis on Basic Decision-making Model of HHJC

Though HHJC experienced shareholding changes time after time, yet its actual controllers were invariably state-owned legal persons. Different from Guangzhou Pearl River Industrial Development Holdings Co., Ltd., HHJC’s largest shareholder — HNA Infrastructure Holdings Group Co., Ltd. — had 57.65 percent of shares, thus theoretically having the absolute power of discourse in the decision-making of HHJC. However, HNA Infrastructure Holdings Group Co., Ltd. was not the final actual controller; instead, Hainan Province Cihang Foundation holds controlling interest of HNA Infrastructure Holdings Group Co., Ltd., and finally holds Hainan HNA Infrastructure Investment Group Co., Ltd. Thus, it is Hainan Province Cihang Foundation that serves as the real strategy maker. The multi-layer equity structure leads to decentralized decision-making power of HHJC. Apart from the controlling shareholder, there are also eight fund shareholders and one institutional shareholder, who hold approximately 3.2 percent of shares respectively and thus have equal power of discourse.
HHJC and Guangzhou Pearl River Industrial Development Holdings Co., Ltd. are relatively similar in the aspect of decision-making model. They are all state-owned enterprises and have complicated shareholding distribution; their actual controllers have a low proportion of shares; ten largest shareholders are varied, and their decision-making power is less centralized than family enterprises.

Table 6- 12 2016 Ten Largest Shareholders of HHJC

<table>
<thead>
<tr>
<th>Shareholder’s Name</th>
<th>Amount (100 Million Shares)</th>
<th>Shareholding Ratio (%)</th>
<th>Nature of Shareholders</th>
</tr>
</thead>
<tbody>
<tr>
<td>HNA Infrastructure Holdings Group Co., Ltd.</td>
<td>22.49</td>
<td>57.56</td>
<td>Legal person</td>
</tr>
<tr>
<td>HNA Holdings Group Co., Ltd.</td>
<td>1.27</td>
<td>3.26</td>
<td>Legal person</td>
</tr>
<tr>
<td>DAYE TRUST CO., LTD. - Daye Trust – HHJC Private Placement Investment Capital Trust Plan</td>
<td>1.24</td>
<td>3.16</td>
<td>Fund</td>
</tr>
<tr>
<td>Chang Xin Asset Management - Shanghai Pudong Development Bank - China Industrial International Trust - China Industrial International Trust · Xingjin Puxin No. 6 Assembled Funds Trust Plan</td>
<td>1.24</td>
<td>3.16</td>
<td>Fund</td>
</tr>
<tr>
<td>Manulife Teda Fund - Shanghai Pudong Development Bank - China Industrial International Trust - China Industrial International Trust · Jinxin No. 8 Assembled Funds Trust Plan</td>
<td>1.24</td>
<td>3.16</td>
<td>Fund</td>
</tr>
<tr>
<td>Shanghai Changjiang Wealth &amp; Asset Management - Shanghai Pudong Development Bank - China Industrial International Trust - Xingjin Puxin No.7 Assembled Funds Trust Plan</td>
<td>1.24</td>
<td>3.16</td>
<td>Fund</td>
</tr>
<tr>
<td>Guo Hong Asset Management - Industrial Securities - Chongqing Shengdahong Science &amp; Technology Co., Ltd.</td>
<td>1.24</td>
<td>3.16</td>
<td>Fund</td>
</tr>
<tr>
<td>Guangdong Finance Trust Co., Ltd. – Utrust · HNA Infrastructure Private Placement Assembled Funds Trust Plan</td>
<td>1.24</td>
<td>3.16</td>
<td>Fund</td>
</tr>
<tr>
<td>Shareholder’s Name</td>
<td>Amount (100 Million Shares)</td>
<td>Shareholding Ratio (%)</td>
<td>Nature of Shareholders</td>
</tr>
<tr>
<td>-------------------</td>
<td>-----------------------------</td>
<td>------------------------</td>
<td>-----------------------</td>
</tr>
<tr>
<td>Shenzhen Rongtong Capital Management - Ping An Bank - Shaanxi International Trust: Shaanxi International Trust · Qingyuan No.20 Target Investment Capital Trust Plan</td>
<td>1.24</td>
<td>3.16</td>
<td>Fund</td>
</tr>
</tbody>
</table>

Data source: the corporate annual reports.

6.2.2.3 Analysis about Decision Contents of HNA Infrastructure

The equity analysis result shows that the equity structure of HHJC is decentralized and that the final controller Hainan Province Cihang Foundation is a state-owned legal person, instead of a natural person. Thus, the company’s agents do not belong to some family, but are professional managers selected or appointed by Hainan Province Cihang Foundation.

### Table 6-13 Executive Directors of HHJC (2016)

<table>
<thead>
<tr>
<th>Name</th>
<th>Duty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Huang Qiu</td>
<td>President &amp; director</td>
</tr>
<tr>
<td>Zeng Biaozhi</td>
<td>Vice-president &amp; director</td>
</tr>
<tr>
<td>Shang Duoxu</td>
<td>Director</td>
</tr>
<tr>
<td>Liang Jun</td>
<td>Director</td>
</tr>
<tr>
<td>Fan Ning</td>
<td>Director</td>
</tr>
<tr>
<td>Meng Yongtao</td>
<td>Director</td>
</tr>
</tbody>
</table>

Data source: the corporate annual reports

On the part of family enterprises, as their agents are members selected from inside family enterprises, they may adopt emotion encouragement as well, apart from material incentive. Thus, their agency costs were relatively lower. However, according to the computation of HHJC’s overhead rate, though it’s administration expenses were obviously lower than ZJKG, yet they were far more than those of Agile and Shengyu Group, with average value as much as ten times of Agile. From the view of number of executive directors, HHJC has six executive directors, same as the number of Agile. But its administration expenses and overhead rate were much higher than Agile, which was one of most difference between selection from inside family and external recruitment of professional managers in society.

The analysis result of the asset-liability ratio of HHJC indicates the average value and annual numerical values of asset-liability ratio of ZJKG ranked second among the four cases. Insolvency even appeared in some years. It suggests that HHJC preferred to adopt high...
liability ratio financing strategies. On the one hand, this is determined by its particular characteristics as a state-owned enterprise, as state-owned enterprises are inborn linked to governments. This intangible credit mortgage will facilitate it to acquire bank loans and external funds; on the other hand, as the decision layer of state-owned enterprises do not possess the ownership of enterprises, they do not consider the sustainable development of enterprises as prudently as founders of family enterprises, or concern about bankruptcy of enterprises as strongly as members of family enterprises. Thus, they are subjectively willing to and objectively able to accept more external funds, which even resulted in extreme conditions like insolvency.

The main business of HHJC covers four parts at present, including commercial service, engineering business, hotel and restaurant, consultation and design. Among others, commercial service is the major business obtained from merger and acquisition, which accounts for the largest proportion (71 percent). The annual report data indicates that the company continued to develop and expand its general merchandise retails, and consolidated its leading position and advantage in general merchandise retails of Hainan. Through a series of measures like optimizing brand structure, enhancing business level of shopping mall, bringing forth creative marketing modes, and raising brand awareness and reputation, etc., its operational entity — Seaview International Plaza — accomplished mission indices beforehand, which exerted a positive impact on enhancing performance of the company.

Engineering construction, the business that HHJC built up from, fell into a secondary business, occupying only 21.88 percent. The company launched the major asset restructuring program in June 2015, and received on July 18, 2016 the Official Reply of China Securities Regulatory Commission to Approving of Hainan HNA Infrastructure Investment Group Co., Ltd. Issuing Shares to HNA Infrastructure Holdings Group Co., Ltd. to Purchase Assets and Raise Supporting Fund. After completing the restructuring, the company has changed its main businesses to infrastructure investment and operation, which are presently developed by its subsidiary. For example, the company developed substitution construction of engineering projects, and EPC general contracting etc. via its subsidiary Hainan Construction Engineering Co., Ltd. In addition, hotel and restaurant, consultation and design are newly developed businesses of the company, occupying only 7 percent in total. Public data suggests that the company has a self-supporting hotel — Hainan Guest House — at CBD, Guoxing Avenue, Haikou City, which adjoins the office building of Hainan Provincial Government. The hotel enjoys an extremely favorable location advantage. The hotel is built as per five-star standard and provided particularly with VIP reception and service facilities as a business hotel to offer reception services for business and government affairs and meetings. The hotel has grown so far into a benchmark unit in the high star-rated hotel industry of Haikou City, but the business income of the hotel is far less than the main business of the company.

Table 6-14 Statistics for Diversified Businesses of HHJC (2016)
Compared with family enterprises like Agile and Shengyu Group, HNA Infrastructure’s business is clearly less diversified, because, for one thing, the management layer of the company is short of the motive to conduct diversification strategy; and for another, the character of the state-owned enterprise also hinders its management layer from developing innovative, diversified businesses.

### 6.3 Hypothesis Verification

#### 6.3.1 Strategic Decision-making Model of Family Enterprises

Two family enterprises Agile and Shengyu Group almost established in the same period in Hainan. Due to great policy fluctuations in the real estate industry, and disadvantages of family enterprises in comparison with state-owned enterprises, family enterprises need to lubricate relationship with many departments of government in order to gain key resources such as funds and land, etc. in the market. The sensitive information acquired in this process may attribute to the “original sin” of enterprises. Under the combined influence of great fluctuations of external environment, and adverse factors stemming from own nature of property right of enterprise, the founders of two family enterprises mastered the strategic decision-making power when companies started up. With the centralized decision-making model, two enterprises were able to make decisions quickly under pressures of external environmental change and internal uncertainty, and to expand and seize market. Moreover, due to low “cost of decision-making” and low “conversation cost” arising from entrepreneurs’ centralized decision-making model and quick advance and retreat, the enterprises paid a very
low administration expenses and achieved very remarkable gross effect on cost and expense control in contrast with state-owned enterprises. The enterprises’ existential needs were satisfied. In the extremely turbulent real estate context, Agile and Shengyu Group have managed to survive at last.

When facing up-scaling business and increasing difficulty in management, two enterprises invariably attempted to introduce think tank from outside to launch democratic decision-making. Agile delegated the decision-making power for important markets to its non-family senior executive team, trying to carry out a transformation to the democratic decision-making model. However, only half a year later, such decision-making model almost brought catastrophe to the enterprise. Agile could not but resort to the original centralized decision-making model. The board of directors of Agile is stuffed with family members, who master more than 60 percent of shares, and take control of all operation links involving strategy formulation, investment decisions and so on of Agile. It happens that there is a similar case. Shengyu Group also made an attempt to carry out democratic decision-making in 2015. The company’s founder delegated the decision-making power to its senior executive team that the company had cultivated. However, the first decision made by the team nearly cut off the company’s cash flow. The founder of the company had to recover the decision-making power urgently. The founder Wu Xiao masters 80 percent of the company’s shares; his family members totally hold one hundred percent of shares of the company. After resuming the centralized decision-making model, both of two enterprises tided over the crisis and subsisted, and achieved remarkably improved financial performance.

In contrast, two state-owned enterprises are short of core decision makers. Members of the board of directors are selected every four years. Even the controlling shareholders of two enterprises went through several changes, let alone centralized decision-making.

To sum up, family enterprises adopted centralized decision-making model at the beginning of establishment. Such efficient, low-cost and flexible model enabled family enterprises to survive under the circumstance of great fluctuation and feeble competition status. As family enterprises grew, their founders invariably attempted to introduce the democratic decision-making model. However, participants of democratic decision-making failed to meet the needs of business operation and were short of understanding for the macro-environment; as a result, their decisions failed to reach the desired effect, but threatened the subsistence of enterprises on the contrary. For this reason, these family enterprises resorted to the centralized decision-making model again.

The analysis and exposition above extends support for the first hypothesis in the dissertation, that is, family real estate enterprises are more inclined to adopt the centralized decision-making model in comparison with state-owned enterprises.

6.3.2 Decisions on Agency for Family Enterprises

The centralized decision-making model of family enterprises adapted, in some period of time, to the market environment, raised efficiency of decision-making and enhanced corporate performance. In this process of decision-making, decision makers have accumulated rich
experience in decision-making and built up personal authority. But experiential knowledge is a double-edged sword, as experiential knowledge about decision-making is deeply involved in the context-embeddedness, that is, it is only applicable to a specific circumstance. When the circumstance changes, the decisions made based on the experiential knowledge might be incorrect (Argote & Ingram, 2000). Agile’s small and medium shareholders were aware of the seriousness of the problem first, so they screamed for weakening the influence of family, and advancing professional managers’ power of discourse. Shengyu Group was also aware of the problem, although without admonishment by small and medium shareholders.

Two family enterprises are strikingly similar in the aspect of decisions on agency. (1) Both enterprises made a spontaneous attempt to introduce non-family enterprise professional managers prior to 2014, hoping to improve their management quality. Scholars often criticize that founders of Chinese family enterprises have no such breath of vision and capability to introduce professional managers (Chu Xiaoping & Luo Toujun, 2001; Miao Yinzhi, 2013); but, as a matter of fact, they neglect the economist character of such founders, that is, they will positively try whatever things to the benefit of enterprise survival and development. (2) Merely half a year later, professional managers put two enterprises under threat of bankruptcy. Agile’s professional managers advanced rashly, crossing the red line of law. Professional managers of Shengyu Group selected a zero-yield high risk real estate project, which nearly cut off the cash flow of enterprise. (3) Two enterprises dismissed professional managers only half a year later after they were recruited, and resumed the principal-agent state to cope with crises of enterprise. This is contrast to agent selection problem of state-owned enterprises, which generally have their State Assets Management Department appoint their agents. Bearing dual characters, i.e. civil servants and manager simultaneously, agents of state-owned enterprises assume the responsibility for preserving and increasing the value of state assets and accomplishing corresponding political tasks (Yan Yanyang & Jin Peng, 2014), which is a big difference from agents of family enterprises.

After the agent crisis, two enterprises turned to fostering agents from inside their families, which attribute to four reasons according to the dissertation: (1) With merely more than thirty decades of history of reform and opening-up, China is short of professional managers, and uneven quality of managers can hardly satisfy enterprise demands. (2) The incomplete social credit system of China led to high costs of supervision over recruited professional managers of family enterprises. (3) There is lack of a natural relationship between family real estate enterprises and governments. Many links to acquire core resources bear the trait of “original sin”. Family enterprises are disinclined to give outsiders exposure to such information. (4) Due to dual incentives of kinship and remuneration, management cost for family fostered agents is much lower. The agency costs are measured based on overhead rate in the dissertation (Xiao Zuoping, 2006), just to find that the overhead rates of family enterprises were far lower than those of state-owned enterprises. To sum up, the characteristic and external environment of family real estate enterprises combine together to bring about family enterprises’ preference to the decision of fostering their agents from inside their families. In fact, two cases of family enterprises not only succeeded in pulling through crises, but also
saved agency costs and enhanced financial performance of enterprises after making the decisions of cultivating family members as their agents. Then the second hypothesis in the dissertation gains its support from the analysis and exposition above.

6.3.3 Decisions on Investment and Financing for Family Enterprises

6.3.3.1 Decisions on Financing

Funds are in great demand in the real estate industry. The average asset-liability ratio in the industry reached up to 80 percent in 2016. To maintain normal operation, real estate enterprises need to grasp massive funds. To develop with own funds will place restriction on the speed of enterprise development and have an impact on their gains. The use of high degree of financial leverage will also put an enterprise’s operation safety under threat in the context of drastic fluctuation of external environment.

As what mentioned before, Agile and Shengyu Group gained first-hand experience in the whole course of evolvement of Hainan real estate market from prosperity to decline and further to prosperity, and bore the brunt of repeated regulatory policies for China’s real estate market. They have more profound experience of the impact that the constant changes of market and institutional environment would have on business operation.

Two family enterprises’ preferences to decisions on financing are measured in the dissertation by virtue of consecutively 12-year asset-liability ratios and financial expense rate. Judging from the indexes of asset-liability ratio, Agile’s asset-liability ratio stayed at 65 percent throughout the year, which was clearly lower than the average level (75 percent) in the real estate market, and much lower than those of two state-owned enterprises. The asset-liability ratio of Shengyu Group was an extreme — zero over the years, not exceeding 20 percent, however, in spite of increase in recent years. On the whole, the asset-liability ratios (average values and fluctuation range) of two family enterprises were lower than corresponding state-owned enterprises for consecutive 12 years, which suggests that family enterprises prefer to make low-debt decisions on financing. From the view of indexes of financial expense rate, Agile’s financial expense was negative for a time, indicating that the enterprise was possessed with a good deal of surplus cash flow that bore interest. Even when it was a positive value, the numerical value was very low. It also suggests indirectly that the enterprise made a low-debt decision on financing. The financial expense of Shengyu Group was zero, consistent with the foresaid zero asset-liability ratio of the company. Though the financial expense rate slightly has risen in recent years, yet it was far less than that of two state-owned enterprises.

The results of interview with founders of two family enterprises have further verified the deduction about their decisions on financing made according to the objective data above. It is found that founders of family enterprises were aware of reality of difficulty in financing, feeble capital chain, and development of real estate industry with high liability ratio. To avoid bankruptcy risk caused by capital chain rupture, they were inclined to make low liability decisions on financing, which is consistent with the research conclusion of Claessens, Djankov, Fan and Lang (2002). In conclusion, due to drastic fluctuation in China’s real estate market and vulnerability of family enterprises in them, family enterprises were unwilling to
use external funds, in order to prevent bankruptcy risk arising from excessive high degree of financial leverage. In respect of financing capacity, owing to the special formation and service character of China’s financial market, family enterprises paid much higher cost than state-owned enterprises to acquire external funds. Although a large quantity of funds were required in the business operation of real estate enterprises, and family enterprises were also consciousness of the importance of external funds, they were short of the motive and capability to gain external funds (Chen, Kuo-Hsien & Tsai, 2007). As a result, family enterprises were inclined to make low liability decisions on financing.

6.3.3.2 Investment Decisions

Due to influence of traditional family culture, each founder of family enterprise hopes his/her enterprise to run a long history and family wealth to pass on successively. Agile and Shengyu Group invested most of their funds in the companies. Considering indivisibility of investment risk and long-term investment, they laid more emphasis on long-term performance of company (Villalonga & Amit, 2006; Yang Shenggang and Tan Shuyun, 2013). Because of drastic policy and market fluctuations of real estate industry, founders put high value on the subsistence of enterprise than short-term performance (Song Lihong and Li Xinchun, 2013).

In 2004, Hainan real estate market was still in the midst of recovery, when good deals of stocking houses were not completely assimilated yet. In such a transition period, however, Agile turned its investment target to the area of tourism real estate, lashing out a large fortune on Hainan Clear Water Bay Project. Five years later, Agile had already gained tremendous profits when its peers began to realize the market prospect of tourism real estate. “To know whether a project can be successfully developed or not is more often than not a test of an entrepreneur’s unique insight and extraordinarily superior judgment,” concluded Chen Zhuo this way for the development Clear Water Project. When Agile’s success in Clear Water Bay Project attracted its peers to copy its example, Agile turned its eyes again on the educational cause, lashing out a large amount of capital on six sectors, including preschool education, K12, international education, higher vocational education, community education, and online education.

Whether Agile’s preference to long-term investment will help to effectively improve its competitiveness in future remains to be further observed. Similar to the situation of Agile, Shengyu Group had begun to execute differentiation and operational transformation years before. Since it had a foothold in Hainan Island, Shengyu Group has established its development direction towards tourism real estate, and developed such tourism real estate as Shengyu Garden, Shenyu ·Yishanju, Shengyu ·Flowery Coast at Sanya and Five Finger Mountain. When the tourism real estate was gaining stable incomes, Shengyu Group began to map out strategies in the hi-tech industry with a long investment recovery period. It cooperated respectively with several scientific research institutions in developing agricultural products of medicinal value, researching and developing remediation technology of contaminated soil, and has already achieved corporate operation of new programs.
By contrast, the main businesses of two state-owned enterprises are still real estate development. They were not simply short of the awareness of long-term investment; the incomplete incentive mechanism also weakened the motive for long-term investment of state-owned enterprises.

In terms of investment in tourism real estate, education investment and science or technology investment, Agile and Shengyu Group took on distinct traits from state-owned real estate enterprises, and exhibited an apparent preference to long-term investment. This proves the hypothesis made in the dissertation that family enterprises are inclined to make decisions on long-term investment.

6.3.4 Decision on Diversification for Family Enterprises

Two distinct viewpoints arise as to whether family real estate enterprises should adopt the strategy of diversification in the fierce market competition. Opponents believe family enterprises should make use of limited resources to specialize in one field and maintain their core competitiveness (Yu Yangang & Wu Jiaying, 2005). While supporters think that diversification is an important means for family enterprises to break through difficulties and seek for market opportunities anew (Li Xinchun, Zhang Pengxiang & Ye Wenping, 2016).

As to the motive of diversification, on the one hand, both Agile and Shengyu Group have a strong sense of crisis. Having predicted the future tendency of the real estate industry very early, they hoped to achieve sustainable development of companies via diversification. On the other hand, two private enterprises were clearly aware their difficulties in taking out loans and raising funds. They wanted to realize internal benign development of enterprises via diversification. For example, Shengyu Group stresses that “it will make its own capital pool by means of diversification to have cash flow projects sustain emerging projects.”

Two family enterprises also happen to hold the same view about the mode of diversification. Agile underlines that “diversification does not stand for corporate transformation, but is to engage in associated industries and areas that we are confident of success”. For instance, the company delivers specialized property management and education services etc. to the benefit of existing 700,000 proprietors to achieve related diversified development of business. Shengyu Group sticks to the concept of “developing new projects to serve main business, and executing diversification centering on main business”. Different slightly from Agile, Shengyu Group regarded local resources as a cut-in point of diversification. For instance, Shengyu Group built cooperative relationship with some local governments in the course of real estate development, and incidentally developed land remediation, tourism businesses etc., apart from real estate development, thus reaping many benefits from one investment.

No matter the related diversification was executed from the perspective of either customers or land resources, both of two family enterprises adopted related diversification strategy. By contrast, two state-owned enterprises that are still focusing on real estate development business are characterized by lower level of diversification, slower progress, and a very small proportion of non-real estate business. This conclusion extends support for the hypothesis proposed in the dissertation about family enterprises’ decisions on diversification. Such
diversification layout has laid a foundation for the future development of enterprise, but the actual result remains to stand the test of time.

6.4 Chapter Summary

It is found based on deep analysis upon four cases that an enterprise’s characteristics of property rights and macro institutional environment not only have an impact on its strategic decision-making model but also on contents of decisions. Concretely speaking, Chinese family real estate enterprises were more susceptible to the negative effect of macroscopic systems and industry fluctuation in contrast with state-owned enterprises. For the sake of sustainable development, founders of family enterprises were more inclined to adopt the centralized decision-making model. In respect of contents of decisions, family enterprises had the awareness and motive to execute principal-agent model, but agents’ attempts invariably failed at last for the reason of incomplete professional manager market and particularity of the real estate industry, etc. Family enterprises turned at last to fostering agents from inside their families. The incomplete investment and financing systems, probability of bankruptcy caused by high degree of financial leverage, and disadvantages in market competition gave rise to family enterprises’ preference to making low liability decisions on financing. Disadvantage lies in market competition and original sin problems in the course of growth rendered family enterprises’ inclination to making decisions on long-term investment. In the aspect of expansion, family enterprises built a rolling development mode, i.e. “have cash flow projects sustain prospective star projects” based on own advantages and disadvantages. Moreover, they took the lead obviously in mapping out emerging business, and have a higher degree of diversification than state-owned enterprises.

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<td>Family real estate enterprises are more likely to adopt the centralized decision-making model, compared to state-owned enterprises.</td>
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<td>Family real estate enterprises are inclined to foster family members as their agents, compared to state-owned enterprises.</td>
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<td>Family real estate enterprises are more likely to adopt diversified expansion strategies in contrast with state-owned enterprises.</td>
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From the view of current progress, family enterprises that were able to make strategic decisions based on overall considerations of own characteristics of property rights and the influence of external environment have achieved desirable business performance; While the follow-up remains to be further observed. The analysis and conclusions above will make important academic contributions to developing the strategic decision-making model of family enterprises, and meanwhile be of theoretical guiding value to Chinese family enterprises to facilitate corporate governance.
Chapter Seven Conclusion and Discussion

7.1 Research Conclusion

Family enterprises, as the mainstay in the global economic development, have attracted attentions of numerous scholars, who have come up with a large number of valuable research conclusions. Through over three decades of development, Chinese family enterprises have exceeded 50 million in number. Although they have created millions of employment positions, drastically facilitated innovations and economic growth, and played a significant role in the whole national economy, there is still less research relating to Chinese family enterprises.

Specific market situations have resulted in lots of unique characteristics of Chinese family enterprises. Decision-makers of Chinese family enterprises place more value on enterprise survival than profits. Chinese family enterprises are of unequal market competition status to state-owned enterprises. In addition to disparity in resource endowment stemming from own characteristics of property rights, Chinese family enterprises are also subject to the influence of macro-environment. Such features of Chinese family enterprises are out of tune with the fundamental hypotheses of mainstream theory of strategic decision-making, i.e. to seek for profit maximization, to take part in fair market competition, and to maintain a relatively stable market environment, etc. The strategic decisions of an enterprise will have a direct effect on its rise and decline. Though scholars have been exploring the strategic decision-making of family enterprises, yet they fail to fully understand those family enterprises in emerging economies.

Chinese family enterprises, which grew up in the context of reform and opening-up, wane and wax endlessly and can be described as tenacious grass that can be never burned utterly by prairie fire. On the one hand, environment variables enable them to face a battle for survival and development of enterprise; on the other hand, they have to consider adopting strategic decisions different from other types of enterprises due to their own unique characteristics. On the basis of review over earlier document research and industrial development history, this dissertation proposes research hypotheses about strategic decision-making model and contents of decisions of Chinese family enterprises, deeply analyzes the strategic decision-making problem of the first generation of founders of two family real estate enterprises in Hainan region of China based on acquired multi-dimension information with multi-case study method. By comparing them with local two state-owned real estate enterprises, the dissertation reveals how an enterprise’s nature of property rights and the external environment act together on its strategic decision-making model and contents of decisions. Through case study on real estate enterprises in Hainan of China, the dissertation presents several research findings about the strategic decision-making problem of Chinese family enterprises, which may come to the following conclusions.
(1) Decision-making models of Chinese family enterprises: From the perspective of enterprises’ life cycles, the strategic decision-making models of Chinese family enterprises showed varied characters in different periods of their life cycles. At the beginning of establishment, family enterprises adopted centralized decision-making model for the sake of efficient, low-cost and flexible operation and management of enterprise, which helped them to survive under the circumstances of fluctuating environment and feeble competition status. As family enterprises grew, their founders invariably attempted to introduce a democratic decision-making model. However, as a result of managers’ insufficient understanding for macro-environment as well as their capability failure to satisfy the needs of business operation, such decision-making model failed to live up to the expected effect, but threatened enterprise survival on the contrary. For this reason, these family enterprises resumed the centralized decision-making model. In short, Chinese family real estate enterprises are susceptible to the negative effect of macroscopic systems and industry fluctuation; thus, founders of family enterprises are inclined to adopt the centralized decision-making model.

(2) Agent-enabled decision-making of Chinese family enterprises: On the basis of sustainable development goals and the appeal for minimum transaction cost, family enterprises prefer fostering their agents from inside their families. Family enterprises indeed have the consciousness and motivation of executing entrustment, but they pay a high cost to recruit professional managers outside due to incomplete professional manager market, to supervise externally recruited professional managers because of incomplete social credit system of China, and to suffer penalty caused by rash advance by externally recruited professional managers due to unique characteristics of the real estate industry. By contrast, family fostered agents are subject to the dual motivation and restriction of kinship and remuneration, and cost much less in terms of recruitment, supervision and the probability of default. To sum up, the unique characteristics and external institutional environment of family real estate enterprises combine to bring about their preference to the decision of fostering their agents within the scope of their families.

(3) Financing decision-making of Chinese family enterprises: Chinese family enterprises prefer to make low debt decisions on financing based on the stable operation principle. On account of dramatic fluctuation in China’s real estate market, and the vulnerability of family enterprises, family enterprises are loath to utilize external funds in order to prevent bankruptcy risk stemming from excessive high degree of financial leverage. With respect to financing capability on the other hand, family enterprises pay much higher cost than state-owned enterprises in external financing, because of special constitution and service peculiarity of China’s financial market. Incomplete investment and financing systems, probability of bankruptcy arising from high degree of financial leverage, and disadvantage in market competition result in family enterprises’ preference to the low debt decisions on financing.

(4) Investment decision-making of Chinese family enterprises: Chinese family enterprises are more likely to make decisions on long-term investment on the basis of the principle of sustainable operation. Owing to influence of traditional family culture, each founder of family
enterprises hopes his/her business will run a long history and pass his/her family wealth from generation to generation. Besides, as family enterprises invest a majority of their funds to companies, they lay more emphasis on the long-term yields of company, considering indivisibility of investment risks and long investment term. Family enterprises are more inclined to make long-term investment decisions against the backdrop of great policy fluctuation and severer competition in the real estate industry.

(5) Diversified decision-making of Chinese family enterprises: Family enterprises are more inclined to make related diversified expansion decisions based on the rolling development principle. They have built up a development mode of “having cash flow projects sustain star projects tomorrow” based on the analysis of own strength and weakness. Under the circumstance of increasingly severe competition in the area of major business, family enterprises regarded own customers and market resources as the cut-in points and carried out related diversified expansion strategies, which both made full use of the core resources and minimized expansion risks, and consequently achieved the goals of rolling development and sustainable operation.

In the eyes of current progress, family enterprises which made decisions based on overall consideration of own characters and external environment not only have succeeded in going through operation crises time after time and realized subsistence of family enterprises, but also have achieved favorable business performance. But how the long-term performance will be like remains to be further observed. The analysis and conclusions above will serve as a significant academic contribution to the development of theory of strategic decision-making for family enterprises, and meanwhile as a valuable theoretical guidance to boost corporate governance of Chinese family enterprises.

7.2 Practical Value of the Research

This research will make a great theoretical contribution as to how family enterprises conduct strategic management in Chinese context. Previous research on family enterprises’ strategic decision-making problem primarily focused on developed countries, such as America, Japan, etc. (Astrachan & Shanker, 2003; Mehrotra et al, 2013), but paid little attention to Chinese context. This, on the one hand, attributes to the short development history of Chinese family enterprises and a small amount of typical family enterprises (Neubauer & Lank, 2016), and on the other hand, to government’s excessive interference with emerging economies. Family enterprises’ unique characteristics, i.e., regarding sustainable development as top purpose of operation, and unequal competition status to state-owned enterprises, etc., also lead to limitation to the applicability of typical theoretical models (Wang Xun & Fang Jin, 2011). As previously mentioned, two family enterprises — Agile and Shengyu Group — in the dissertation made their strategic decisions under such circumstances. The institutional and industrial environments exhibit such features as economic transition, unequal status of competition subjects, and sustainable development outweighing profit maximization, which distinguishes from western developed countries in nature. According to research in the
dissertation, family enterprises should make correct strategic decisions under such circumstances.

(1) Family enterprises should attach equal importance to institutional and market risks. In the context of regulated market economy, family enterprises are mainly faced with market risk. But system risk is of equal importance in the context of emerging economies represented by China. As mentioned in the chapter three of the dissertation, the system risk of real estate industry mainly includes system adjustments in terms of state approval for land use, loan interest rate, house property tax and restrictions on house purchasing, etc., which are issues that enterprise cases in the dissertation concerned most when making strategic decisions (financing decision of Shengyu Group at the part 5.2.2.4). Real estate development is an extremely complicated process, which involves hundreds of approval. Management systems in such approval links might change at any moment. For instance, Chinese government successively introduced four rounds of regulations on real estate industry from 2008 to 2012 (Refer to 3.2.4 of the dissertation) to adjust industry systems in six dimensions, including down payment percentage for the first home, loan for the second and more homes, estate purchase requirements for non-local residents, house purchase quota policy, accountability system, and house property tax. The same system may have remarkably varied effect on different types of enterprises. Fluctuation in each of the foresaid systems are likely to bring about huge operation risk or even bankruptcy to a family enterprise; though these systems may also have certain influence on state-owned enterprises, yet state-owned enterprises’ inborn resource superiority will at least protect them from bankruptcy. Therefore, when making strategic decisions, family enterprises should learn to place value on institutional and market risks, that is, to ensure survival first before considering how to gain.

(2) Family enterprises need to analyze macro-background, and distinguish the applicable scope of theory. Family enterprises invariably encounter managers’ bottleneck of professional abilities in the process of their growth. Principal-agent is an important way to settle the bottleneck problem (Madison, Holt, Kellermanns & Ranft, 2016). As Chinese family enterprises are loath to delegate their power of attorney to professional managers, lots of scholars regard it a unique Chinese phenomenon, and attribute it to a founder’s breath of vision and ability (Chu Xiaoping & Luo Toujun, 2001, Miu Yinzhi, 2013). As a matter of fact, this is not a unique phenomenon of China. According to descriptions of Chandle (1977), American and European family enterprises were also faced with the same problem at their earlier stage arising from environmental limit. In two cases of the dissertation, both Agile and Shengyu Group accepted principal-agent theory when they began to consider their successors; but things didn’t turn out the way they wanted it. They finally resorted to fostering successors from inside their families (As mentioned in the part 5.2.1.3 and 5.2.2.3). The result is inconsistent with the original intention of principal-agent theory, but chimes in with the basic viewpoints of stewardship theory (Donaldson, 1990; Barney, 1990). Moreover, as mentioned in the summary of references of the dissertation, though it is theoretically feasible to apply the life cycle theory to the decision-making of family enterprises, yet scholars neglect the hypotheses and scope conditions of the research on the decision-making model of family
enterprises, including the sufficient supply of professional managers, the complete supervisory system for professional managers, and the mature principal-agent mechanism, etc. The decision-making model of Chinese family enterprises is notably different from that of western family enterprises owing to deficiency of such scope conditions, particularly strategic decision-making problem (Luo, 2003; Reisman, 1983). If applying it mechanically, Chinese family enterprises will be probably caught in the bottleneck of corporate management.

(3) Family enterprises need to reinforce their own skills of making strategic decisions, develop their core competitiveness, and pass it on. The sample survey on decision structures of family enterprises in the dissertation shows that, in terms of major business decisions, there are still a high proportion of independent decisions made by entrepreneurs of family enterprises. Such centralized decision-making style may result in two relatively extreme outcomes. First, decision-making mistakes arising from limited personal ability of entrepreneur resulted in failure of business operation, which is visually manifested in the universally short life of Chinese family enterprises (Bao Yujun, 2005; Li Huagang, 2006). Second, entrepreneurs had transcendental capacity and were able to make strategic decisions to ensure survival and gains of enterprise, but entrepreneurs’ decision-making experience was more often than not a tacit knowledge and few people took part in the decision-making; as a result, obstacles appeared in the transmission of such decision-making capacity (Chu & MacMurray, 1993; Lee, Lim & Lim, 2003). To sum up two extreme cases, one is that entrepreneurs failed to have transferrable decision-making skills and experience; second, in spite of decision-making skills, transmission of such skills was suffocated. Thus, entrepreneurs of family enterprises need to reinforce their strategic decision-making skills without delay in a bid to develop and timely transmit their core competitiveness and to guarantee enterprise survival and profits in competition.

7.3 Limitations

7.3.1 Methodologies

First of all, the fitness of the methodology for this study needs to be discussed. Under normal circumstances, qualitative case study is applicable to the following problems: those unclearly defined, those in the process that are not easy to be observed, and those that challenge the existing theory and logic. (Eisenhardt, Li Ping, & Cao Yangfeng, 2012). Another research paradigm, quantitative empirical study, lays more emphasis on the bilateral dependency between objective phenomenon and abstract theories. In this dissertation, the author employs the method of case study to prove the hypothesis derived from theoretical deduction, which is a combination of deductive reasoning and inductive reasoning. The reason why the author takes this methodology is that he has long been engaged in the management of family enterprises with independent insights and supposition about strategic decision of family enterprises, and thus finds it hard to objectively extract hypothesis from

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19 The author would like to extend his gratitude to a reviewer for his suggestion that case study is more suitable for inductive research. The author has long been engaged in corporation practicing, and has cultivated a primary hypothesis. As a result, it is hard for him to form a hypothesis objectively from the data analysis, leading to his confusion in choosing research methods, but he has tried his best to put it right.
case analysis. Yet the method employed in the research is not, strictly speaking, a scientific one. Therefore, in order to draw a more reasoned conclusion, the research method will be rectified in the later stage of dissertation modification. Specifically, the author has taken up two studies: (1) conducting a normative case analysis based on the case information that has been collected at present; exploring the law of strategic decision-making in family enterprises by means of induction, and extracting family enterprise decision-making theory; (2) collecting decision information of state-owned enterprises and family enterprises in certain districts, conducting rigorous theoretical inference by means of deduction, and analyzing and exploring the relationship between the interaction of enterprise nature and the external environment and the strategic decision-making of the enterprise.

7.3.2 The limitation of research object and the generalization of the conclusion

The dissertation uses multi-case study to explore the strategic decision-making mode and content of the first generation of entrepreneurs of family enterprises in real estate industry in Hainan, China. In the viewpoint of Whetten (1998), this article prescribes a limit to research boundary from three circumstances, namely, people, place and time. To control other disturbing factors, this article will limit the research scope to Hainan, China, research field to real estate enterprises, research objects to decision maker of family enterprises, and research stage to the duration (the early stage of the life cycle) of the first generation of the entrepreneur. Although the four hypotheses proposed by the research have been validated, the generalization of the conclusion in respect of time, space and industry needs further discussion. (Tsui, 2006; Whetten, 2009)

In the first place, the author himself is a founder of one of the family enterprises, so the conclusion has only been verified by another counterpart AGILE. To make up for this deficiency, the author picks one of the top 10 family enterprises in Hainan at random—Hainan Dayin Group, to conduct a robustness verification concerning the conclusion of this research. In order to collect the data of Hainan Dayin Group, the author had a 30-minute telephone interview with its founder and its current chairman of the board respectively, and got abundant first-hand data. The author checked the information collected from the interviews in the State Administration for Industry and Commerce Registration Database, and conducts a triangulation verification with the public reporting at the same time. (De Massis & Kotlar, 2014) After the primary conclusion was drawn, its robustness will be tested in similar cases so that the subjectivity of the researcher can be reduced as well as the insufficiency of the generalization of the conclusion caused by the lack of the cases. By case study, the author has again proven the hypotheses about family strategic decision-making proposed in this dissertation. (See details in Appendix 3.)

Secondly, the author is not clear about whether the conclusion can be applied to other industries since he has only focused on the strategic decision-making of family enterprises. As discussed in the research, however, all of the four sample companies have set foot in not only real estate business but other industry fields, which, to some extent, has proven that the conclusion is applicable to other different industries. To further verify the conclusion, the
author will pay attention to family enterprises in more industries during the later studies so as to strengthen the generalization of the conclusion.

Thirdly, the author has explored the conditions of family enterprises merely in Hainan. Whether the conclusion can be extended to other regions or not needs a deep-going research. In the subsequent revision, the author means to probe into the strategic decision-making of family enterprises in other provinces for the purpose of strengthening the generalization of the conclusion.

7.3.3 Insufficient attention to the performance of strategic decision-making

The research is conducted under the framework of “In the Chinese context, the interaction between the nature of the ownership of family enterprises and industrial and institutional environment has an impact on their strategic decision-making mode and content, so as to affect the performance of the company.” Yet in the process of theoretical inference and case analysis, attention paid to the corporate performance is not sufficient. On the one hand, as mentioned above, Chinese family enterprises prefer to be everlasting rather than maximize the profit. (Lee, Lim&Lim, 2003; Song Lihong&Li Xinchun, 2013; Yu Yangang & Wu Jiaying, 2005) On the other hand, since this research is multi-case study, the empirical analysis of performance in four cases will hardly meet the minimum sample size requirement of statistics. Undoubtedly, it is a pity of this dissertation. Therefore, the author will collect information of strategic decision-making and performance in more enterprises to make up for the deficiency.

7.3.4 The theories require further refining.

Last but not least, this research needs more efforts in theoretical extraction and literature review. As a reviewer has pointed out, this dissertation has put forward several research hypotheses from various perspectives but the logical relationships among them are not clearly defined. Therefore, profounder refining is needed. Even though the extensive and profound management theory helps broaden the view of those who has engaged in management practice like the author and gives them guidance in thinking, to understand it in depth and master it in a short time will not be an easy task. Many literatures have been referred to, however, efforts in this respect need to be furthered as one of the reviewers mentioned. In the later revision, the author will collect more classical and up-to-date literatures for more in-depth reading as well as for helping the author extract the innovation of this research.
## Appendix 1


<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of commodity housing completed (RMB 100 million)</td>
<td>205285</td>
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<td>230848</td>
<td>235286</td>
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<td>1509%</td>
<td>857%</td>
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</tr>
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<td>185%</td>
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<td>Floor space of housing completed (0'000m²)</td>
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<td>3405506</td>
<td>2984017</td>
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<td>1750424</td>
</tr>
<tr>
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<td>2229683</td>
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<td>-30%</td>
<td>-18%</td>
<td>-64%</td>
<td>-28%</td>
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<td>515985</td>
<td>520485</td>
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<tr>
<td>Floor space of residential housing under construction (0'000m²)</td>
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<td>197061</td>
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<td>129098</td>
</tr>
<tr>
<td>Growth of floor space of residential housing under construction</td>
<td>18.13%</td>
<td>15.56%</td>
<td>11.32%</td>
<td>9.63%</td>
<td>6.63%</td>
<td>6.63%</td>
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</table>

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## Appendix 2 Interview Outline

<table>
<thead>
<tr>
<th>No.</th>
<th>Content</th>
<th>Key points</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Basic information of the interviewee</td>
<td>Basic personal information.</td>
</tr>
<tr>
<td>2</td>
<td>Family member or not.</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Time in job, position.</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Strategic decision-making mode of the enterprise</td>
<td>Who is the decision maker?</td>
</tr>
<tr>
<td>5</td>
<td>Who’s the normal decision-making procedure like?</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Personal opinions about the company’s decision-making mode.</td>
<td>Description of a typical decision-making incident.</td>
</tr>
<tr>
<td>7</td>
<td>Description of a typical decision-making incident.</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Agent determination</td>
<td>Who is the current agent, and what’s the relationship between he/she and the enterprise?</td>
</tr>
<tr>
<td>9</td>
<td>How does the enterprise select an agent?</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>How to assess the internal training and external recommendation of the agent?</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Financing decision</td>
<td>What are the sources of funding of the enterprise, and their proportion?</td>
</tr>
<tr>
<td>12</td>
<td>What is the enterprise concerned with before financing?</td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>What problems has the enterprise encountered during the process of financing?</td>
<td>Describe a typical financing incident.</td>
</tr>
<tr>
<td>14</td>
<td>Investment decision</td>
<td>What domains has the enterprise invested?</td>
</tr>
<tr>
<td>15</td>
<td>What is the enterprise concerned with in investment?</td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>What problems does the enterprise encounter during the process of investment?</td>
<td>Describe a typical investment incident</td>
</tr>
<tr>
<td>17</td>
<td>Diversified decision-making</td>
<td>What are the existing businesses of the enterprise and their history of development?</td>
</tr>
<tr>
<td>18</td>
<td>What is the enterprise concerned with when starts a new business?</td>
<td>What problems has the enterprise encountered when starts a new business</td>
</tr>
</tbody>
</table>
Appendix 3 Supplementary Case

Although the four hypotheses proposed by the research have been validated, the extensibility of the conclusion in respect of time, space and industry needs further discussion. (Tsui, 2006; Whetten, 2009) The author would like to extend his gratitude to one of the reviewers who suggested make up the research deficiency with a supplementary case. The author selects one of the top 10 family enterprises in Hainan at random---Hainan Dayin Group, to conduct a robustness verification concerning the conclusion of this research. In order to collect the data of Hainan Dayin Group, the author had a 30-minitue telephone interview respectively with its founder Mr. Wang Bang and its current chairman of the board Wang Peng, and got abundant first-hand data. The author checked the information collected from the interviews in the State Administration for Industry and Commerce Registration Database, and conducts triangulation verification with the public reporting at the same time. (De Massis&Kotlar, 2014) The author deems that straight after the preliminary conclusion, a robustness test in a similar case will help to reduce the researcher's subjectivity as well as making up for the insufficiency of the generalization of the conclusion caused by the lack of the samples.

Hainan Dayin Group was founded in 1990. The founder Wang Bang, coming from Qionghai to Haikou, started his business from rubber in Haikou, and gradually extend it to other domains such as real estate and comprehensive development of agricultural tourism. In 2009, Wang Bang appointed his son Wang Peng the chairman of the board, realizing the first handover of this family enterprise. At present, Wang Bang still holds 80% of the shares, the rest 20% are held by his family members as the following chart:

<table>
<thead>
<tr>
<th>Name of the shareholder</th>
<th>Title</th>
<th>Ownership Ratio</th>
<th>Family Member (Yes/No)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wang Bang</td>
<td>Executive Director</td>
<td>80%</td>
<td>Yes</td>
</tr>
<tr>
<td>Wang Peng</td>
<td>Board Chairman, Executive Director</td>
<td>9%</td>
<td>Yes</td>
</tr>
<tr>
<td>Wang Qing</td>
<td>Executive Director</td>
<td>5%</td>
<td>Yes</td>
</tr>
<tr>
<td>Wang Yaqi</td>
<td>CEO, Executive Director</td>
<td>3%</td>
<td>Yes</td>
</tr>
<tr>
<td>Wang Caiye</td>
<td>Executive Director</td>
<td>3%</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Source: collected by the author from the materials of the sample case

In decision making, this enterprise adopts a centralized mode, since the founder Wang Bang still has the greatest say in the process even if his family agent Wang Peng has taken office for eight years.
As for agent-enabled decision-making, the new board chairman and CEO are respectively Wang Bang’s son and daughter, so this is a typical handover of agency right within the family, that is, Dayin Group chooses internal training for agents.

In terms of investment decision-making, Dayin Group is similar to the other two family enterprises in this research. Since the enterprise was founded, Dayin Group has focused on tourism property. When the housing in Hainan was just reviving, it has purchased more than 20000 mu of land merely in Qionghai, which shows its preference for long-term investment.

In respect of financing decision-making, the enterprise starts from rubber business, constantly expands its business to other fields, and builds self-owned cash pool, so it relies less on the external sources of funding, which shows its distinct preference for low liability.

Concerning diversified decision-making, Dayin Group’s line of business covers real estate, tourism, hospitality industry, agricultural development, trades and business, etc. in several regions like Hainan, Shanghai, and Shandong, which reveals distinct preference for diversification.

To sum up, the robustness test of the supplementary case shows that in respect of mode and content, the strategic decision-making of Dayin Group is highly similar to that of the other two family enterprises in this research, which again validates the conclusion of this research.
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杨胜刚, & 谭舒允. (2013). 上市家族企业融资结构与经营绩效的关系研究①. 湖南科技大学学报 (社会科学版), 16(6).


Declaration

I solemnly and sincerely declare that the academic dissertation submitted is the result of my independent research work under the guidance of my tutor. As far as I am concerned, the research findings in the academic dissertation do not contain any contents that belong to other’s copyright, except those indicated references in the dissertation. Other individuals and collectives who have made contributions to the research of this dissertation are marked in a clear way in the dissertation.

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