

Understanding Entrepreneurial Teams and Governance Effects on Growth Strategy Adopted by Privately-Owned Chinese Startups

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Abstract

This paper addresses how entrepreneurial teams and governance influence the choice of a risky growth strategy—hypercompetitive strategy—adopted by privately-owned Chinese startups. Two specific entrepreneurial teams are analyzed: the nested entrepreneurial team and the emergent entrepreneurial team. In the context of Chinese privately-owned startups, the nested entrepreneurial team structure is more likely to support the choice of hypercompetitive growth strategy than the emergent structure. Two governance mechanisms are examined: ownership structure of the nested entrepreneurial team and board structure. The lead entrepreneur of the nested team has an incentive to acquire a dominant ownership stake in the team, which strengthens the relationship between the nested team structure and the choice of hypercompetitive growth strategy. Meanwhile, an independent board structure is likely to weaken this relationship.

Keywords: Hypercompetitive strategy, Entrepreneurial team, Ownership structure, Boards of directors, Privately-owned Chinese startups

1. Introduction

Exploring factors behind the rapid growth of Chinese privately-owned startups has become an important research agenda (Tsui, Bian, & Cheng, 2006). [1] Previous studies described the type of growth strategies adopted by Chinese startups as aggressive, which focuses on a broad market domain, and innovation and change (Peng, 2000; Peng, Tan, & Tong, 2004; Tan, 2001, 2002). We further evaluate the nature of growth strategies adopted by Chinese startups. The picture has evolved into a type of hypercompetitive growth strategy that is riskier than what was portrayed earlier (D'Aveni, 1994; Ilinitich, Lewin, & D'Aveni, 1998b). The research question of this paper addresses how structural features of Chinese startups support hypercompetitive strategy from two aspects: one is entrepreneurial team structure and the other is governance mechanism.

An entrepreneurial team is defined as a group of two or more individuals who jointly establish a business in which they have financial interests (Kamm, Shuman, Seeger, & Nurick, 1990). Though studying entrepreneurial teams is a recent research phenomenon, it has become increasingly important because fast-growing startups are more likely to be founded by entrepreneurial teams than by individual entrepreneurs (Cooney, 2005; Kamm et al., 1990). In this area of research, studies show that a potential relationship can exist between the entrepreneurial team structure and strategies pursued by the team (Vyakarnam & Handelberg, 2005). We continue this line of research by focusing on two basic entrepreneurial team structures: the nested entrepreneurial team and the emergent entrepreneurial team (Harper, 2008). The nested entrepreneurial team has a hierarchical structure where one lead entrepreneur creates an overarching business vision and strategies for other team members to follow. The emergent entrepreneurial team is flat in structure where every team member has an equal voice in team decisions. Both structures are observed in the formation of entrepreneurial teams (Ensley, Carland, & Carland, 2000; Lechler, 2001); however, how these two different structures affect the choice of growth strategy still needs more research (Harper, 2008; Vyakarnam & Handelberg, 2005). In the context of Chinese privately-owned startups, the nested entrepreneurial team structure is more likely to support the choice of hypercompetitive growth strategy than the emergent structure.

Governance mechanisms also affect the choice of growth strategy. For example, early studies show that ownership structure of Chinese firms could be an interesting research area to explain strategies adopted by firms (Peng, 2000; Peng et al., 2004; Tan, 2002). Nevertheless, how ownership structure of an entrepreneurial team influences the firm strategy is still open to more discussions. It is therefore interesting to explore the relationship between the ownership structure of the nested entrepreneurial team and the choice of hypercompetitive growth strategy.

In governance literature, behavioral economics point out that conflicts of interest can arise between owners, increasing agency costs of a firm (Thaler & Shefrin, 1981; Wiseman & Gomez-Mejia, 1998). This problem worsens when the management team pursues a risky strategy that appeals differently to various owners on the team (Schultz, Lubatkin, & Dino, 2003; Schultz, Lubatkin, Dino, & Buchholtz, 2001). Following this line of argument,

agency problems can occur in the nested entrepreneurial team when the growth strategy is hypercompetitive in nature. To reduce agency problems, firms are advised to set up the boards of directors as one effective governance mechanism (Fama & Jensen, 1983; Jensen & Meckling, 1976). Quite often, building an independent board structure represents a vigilant board capable of opposing risky strategies proposed by the management team (Hermalin & Weisbach, 2003). We continue exploring the influence of an independent board structure on the choice of hypercompetitive growth strategy.

The contribution of this paper is two-fold. First, we incorporate literature of entrepreneurial teams and governance to explain the popularity of hypercompetitive growth strategies adopted by privately-owned Chinese startups. The paper theoretically addresses how the nested entrepreneurial team structure facilitates the adoption of hypercompetitive growth strategy, and how the ownership stake of the lead entrepreneur and the board structure further influence this relationship. Second, this study helps foreign companies partially foresee competitive behavior of their Chinese counterparts, and thereby help them to better prepare for the competition in an early stage of their Chinese counterparts' operations.

In the following, we shall examine the nature of growth strategy adopted by privately-owned Chinese startups, and then proceed to discuss a model that explains the popularity of hypercompetitive growth strategy from two aspects: entrepreneurial team structures—the nested and the emergent structure—and governance mechanisms—the ownership stake of the lead entrepreneur in the nested team and an independent board structure. Finally, we conclude the article by providing two cases to illustrate the model and presenting suggestions for future research.

2. Growth Strategy of Privately-owned Chinese Startups

Privately-owned Chinese firms show a practical importance in Chinese economic reforms. The contribution of the private sector to the GDP has soared from almost nothing in 1980, to 60% in 2005, and is expected to reach 75% by 2010. The number of privately-owned firms has dramatically increased from 10,000 in 1990, to 4.3 million in 2005, with an average annual growth rate of 20% in these 15 years. The entrepreneurial activities of privately-owned startups are considered to be one crucial factor for the rapid economic growth in China (Kikeri, Nellis, & Shirley, 1992). Moreover, the intensified competition has hastened the capability development of privately-owned Chinese startups, such that they experience the momentum to grow in order to compete with the world's leading brands (Tsui et al., 2006).

2.1 Growth Strategy

Business strategy deals with how firms gain competitive advantages in a selected industry (Quinn, Mintzberg, & Manes, 1988). It is a realized strategy based on observed strategic patterns, either intended or emergent (Mintzberg, Ahlstrand, & Lampel, 1998: 9–15). The observed *growth strategy* of privately-owned Chinese firms from their beginning to their Initial Public Offering (IPO) stage is our focus. Firms who are in the startup stage use growth strategy to raise the operational standard of the firm (Glueck, 1976), to improve

the business revenue, the size of the firm and market share (Robbins & DeCenzo, 2004). A dominant market position is one of desirable outcomes of growth strategy (Buzzell & Gale, 1987; Kuhn, 1982), as a market leader position will enhance a successful IPO on overseas stock exchange markets. IPO status reflects the substantially improved operation of a startup, and IPO on overseas stock exchange markets ensures the quality of the growth, given the immature financial market in China and reputation associated with overseas stock exchange markets.

Empirical studies generally portray the growth strategy of privately-owned Chinese firms as aggressive, which focuses on a broad market domain and innovation and change (Peng, 2000; Peng et al., 2004; Tan, 2001, 2002). This type of growth strategy distinguishes itself from the growth strategy of state-owned enterprises (SOEs) that are less aggressive, less innovative, and more focused on a developed market (Miles & Snow, 1978). Meanwhile, a more aggressive and risky growth strategy started to emerge—hypercompetitive strategy (D'Aveni, 1994; Ilinitich et al., 1998b). It is a strategy of *speed* and *rule-breaking* in order to facilitate startups to gain growth momentum at an early stage. Particularly for startups in a volatile market, hypercompetitive strategy would create more advantages than what a generally aggressive growth strategy would do in establishing a leading market position within a short period. For example, we checked all 22 privately-owned Chinese startups listed on NASDAQ and the Hong Kong Stock Exchange by March 2007 in the newly developed and volatile industry of telecommunication, media and technology (see Appendix 1), and found that nine have shown distinct features of hypercompetitive strategy with the highest score of ten, where speed and rule-breaking are constantly manifested, while the rest have shown a moderate feature of hypercompetitive strategy.

2.2 Hypercompetitive Strategy

Speed addresses the efficiency of strategy implementation. It reflects dynamic capabilities, one decisive factor to gain competitive edge in a volatile or newly developed market (Eisenhardt & Martin, 2000). The speed of executing strategy is even regarded as a specific performance measurement for firms in a technology-driven market (Imai, Ikujiro, & Takeuchi, 1985). Speed can become a survival factor for startups. For example, the privately-owned Chinese startup, Tencent (Appendix 1), began providing an instant message (IM) service in 1998, which was an alternative service to Microsoft's Windows Live Messenger (MSN). Tencent adopted a fee free policy to grow its market share for the IM service. Tencent consequently acquired 200 million users between 1999 and 2001. Nevertheless, Tencent, at the same time, could not even pay their 18 employees. By June 2007, Tencent's market share in China had grown to 79.1%, while Microsoft's MNS was down to 13.4%. Speed also reflects the swiftness of adapting different strategies. Hurray (Appendix 1), another privately-owned Chinese startup, had continuously changed their market positioning within the telecommunication industry. It shifted from a network software provider, to a Short Message Service (SMS) operator, to a wireless game designer, and to a wireless music provider from 2002 to 2005—the year Hurray issued its IPO on NASDAQ.

Rule-breaking mostly concerns itself with nonconformity to established strategies and embodies surprises in the design of business models, reflecting innovative vision, capabilities and uses of tactics (D'Aveni, 1994). The business model design is defined as *'the design of an organization's boundary-spanning transactions'* (Zott & Amit, 2007). Innovations in business models thus implies that firms radically change the way they organize and engage in economic exchanges, both within and across the firm, and also across industry boundaries (Mendelson, 2000). Changing business models is particularly appealing for privately-owned startups (Daft & Lewin, 1993; Foss, 2002), the performance of which highly relies on organizational boundary-spanning arrangements (Hite & Hesterly, 2001). For example, in the gaming industry in China in the 2000s, Shanda (Appendix 1) implemented an E-sale channel strategy in its early development—breaking the traditional value chain business model where value is created and transferred from game developers to wholesalers and further to retailers—to directly integrate owners of Internet Bars (retailers) with online game developers. Shanda's innovative business model became the market leader within half a year, and enabled its listing on NASDAQ in 2004. Startups often have to change their existing designs of business by creating new rules of the game to adapt to a volatile environment in order to survive (MacGrath & MacMillan, 2000). They try to *"find fundamentally new way of doing business that will disrupt an industry's existing competitive rules, leading to the development of new business models"* (Ireland, Hitt, Camp, & Sexton, 2001). The disruptive nature is manifested by new business models, where well-accepted standards in the identified market is purposefully deserted, and new rules of the game are established for old and new customers (Christensen & Raynore, 2003).

Startups are prone to hypercompetitive strategy. First, the lack of institutionalization with highly-articulated mechanism in startups makes it easy for them to adopt radical changes (Greenwood & Hinings, 1996). Startups are relatively less constrained by path dependencies (Stinchcombe, 1965), and they are more likely to develop hypercompetitive strategies that are 'disruptive' than institutionalized firms that perhaps first initiated industrial rules and standards (DiMaggio & Powell, 1983; Pfeffer, 1982). Second, hypercompetitive strategies are attractive for startups when the industry they are in is still in its infancy, although the same industry may have been fully developed in other countries. For example, when SMS was introduced to China in 2002, regulations were yet to be established. Privately-owned Chinese startups like KongZhong, LinkTone and Hurray (Appendix 1) took advantage of the uncertainties and the lack of regulations in the newly formed market in China, and as a result, they quickly launched practices such as allowing advertising agents to advertise their products on mobile phones without clearly asking the users' permission. All three firms went public on NASDAQ between 2004 and 2005, with significant revenue generated from the SMS. Regulation amendments came into effect in 2005.

Hypercompetitive strategy is risky (D'Aveni, 1994; Ilinitch et al., 1998b). It can quickly forfeit inexperienced startups if they tread in the wrong terrain. For example, the feature of speed is critical for entering and establishing a strong position in a market; however, it can jeopardize the business if the timing of the entrance is miscalculated, and moreover, the

lack of resources would make it more difficult for startups to amend the mistakes. The feature of rule-breaking can also backfire. For example, if building core competencies is sacrificed for adopting rule-breaking practices, startups would not be able to create sustainable competitive advantages (Prahalad & Hamel, 1990). The rule-breaking practice may also be contradictory to the call for corporate social responsibility, where breaking established and accepted rules in the business community can result in a damaged image of responsible citizenship. This impairment negatively affects the society as a whole and ultimately harms the firm performance (Freeman, 1984; Maak & Pless, 2006). In short, hypercompetitive strategy can strengthen startups' market position in a short time, as well as lead to their demise.

3. Choice of Hypercompetitive Growth Strategy

3.1 Entrepreneurial Teams

An entrepreneurial team includes more than one founder to create and develop a successful venture in which they have an equity (financial) interest (Kamm et al., 1990). This definition also fits into the picture of an entrepreneurial team composed of privately-owned Chinese startups, where an entrepreneurial team includes a key founder-manager, other co-founders, and key employees with stock options.

Entrepreneurial teams are critical for new venture formation: firms founded by entrepreneurial teams are more likely to survive and perform better than firms started by individual entrepreneurs (Cooper & Bruno, 1977; Kamm et al., 1990; Roberts, 1991). Studies have shown that entrepreneurial team characteristics can influence the performance of ventures under high-velocity conditions (Eisenhardt & Schoonhoven, 1990; Hambrick & D'Aveni, 1992). These characteristics can be grouped into team resources (Benson & Davidsson, 2003), team structure (Harper, 2008), and team processes (Smith et al., 1994). Team resources are exemplified by the diversity of team member experiences, members' complementary functional backgrounds, team size, the tenure issue, social capital, etc. The feature of team structure focuses on the different formation styles of the team. The team processes address communication efficiency among team members.

A growing understanding of the characteristics of team on venture performance suggests that a distinction should be made between venture creation and venture growth (Chowdhury, 2005; Vyakarnam & Handelberg, 2005). Specifically, if we analyze venture growth, we are advised to look for explanations from team structure and team processes, but not team resources. This is because team resources are more relevant when a venture is about to start and a team is about to form. After the business starts, the entrepreneurial team structure and processes become more relevant when venture growth is the concern (Harper, 2008; Timmons, 1994; Vyakarnam & Handelberg, 2005). As a result, team structures and communication processes are the key to this paper.

Two contrasting team structures have drawn researchers' special attention: the nested entrepreneurial team and the emergent entrepreneurial team (Bratman, 1999; Harper, 2008; Kirzner, 1984; Waite, 1982).

In the nested entrepreneurial team, there is a lead entrepreneur and at least one co-founder (also termed the sub-entrepreneur). The lead entrepreneur is the key person who is the “spark plug of the team and who makes it function effectively” (Waite, 1982: 122). Hierarchical principles of direction are common in the nested entrepreneurial team, where the lead entrepreneur creates an overarching business conception or vision for the team, and communicates and imposes an overarching ends-means approach on the other team members (Harper, 2008). The lead entrepreneurs do not necessarily possess a superior market knowledge or business skills, rather, a keener sense for discovering new markets, displaying superior creative intelligence, and presenting a stronger strategic vision than other team members. They demonstrate a superior foresight as to how to create profit opportunities and how to differentiate from the rest (Ensley et al., 2000). The lead entrepreneurs show a strong ability to shape communication and interactions within the team such that their business vision becomes a common goal in team decision-making, and their business concept is efficiently and effectively understood and followed by other team members (Sah & Stiglitz, 1986; Witt, 1998).

In the emergent entrepreneurial team, entrepreneurs see themselves as team members on equal footing in the venture, and as a result, no one is perceived as a lead entrepreneur or sub-entrepreneur. The entrepreneurial team of Google is an example, as it is composed of two equal partners: Sergey Brin and Larry Page, who acted jointly to discover profit opportunities in the search engine market. In the emergent entrepreneurial team, entrepreneurs share a common goal, and there is little worry about the free-riding problem as each member in the team will play their parts in the joint effort with a belief that the others will do the same (Bratman, 1999). Nevertheless, it is rational for entrepreneurs to be aware of shirking and free-riding possibilities by other team members in the joint action, which may hurt their personal interests (Bacharach, 2006; Harper, 2008).

Both the nested entrepreneurial team and the emergent entrepreneurial team structures have received empirical support (Ensley et al., 2000; Lechler, 2001; Timmons, 1994). However, how these two structures relate to a chosen growth strategy has yet to be established. In the context of Chinese privately-owned startups, we propose a model explaining the relationship between the entrepreneurial team structure and hypercompetitive growth strategy in Figure 1.

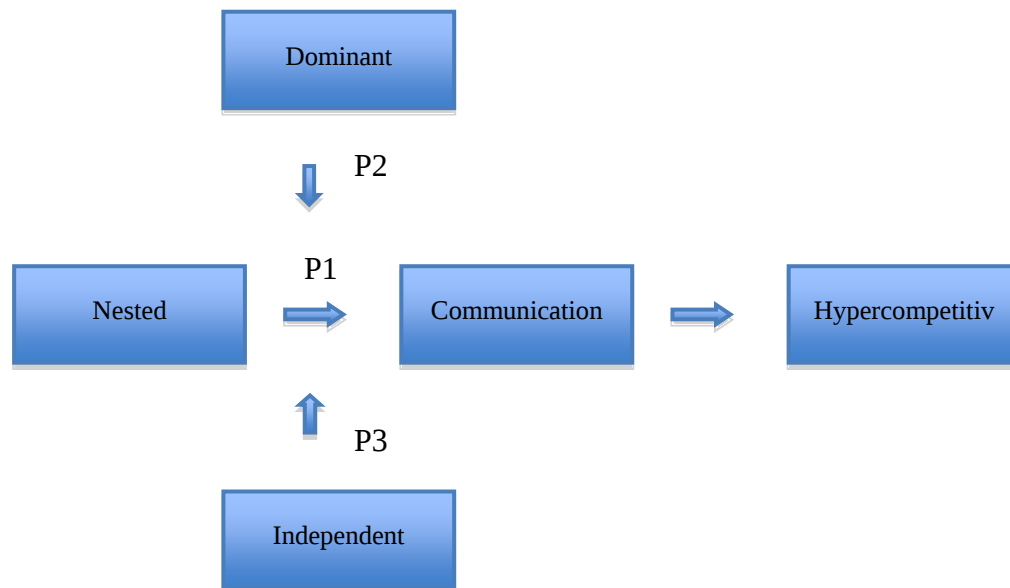


Figure 1. Team structure and governance effects on hypercompetitive growth strategy

In the above model (Figure 1), the nested entrepreneurial team structure supports hypercompetitive growth strategy chosen by the team. This is because the nested team structure enhances an efficient communication process among team members, which facilitates the implementation of hypercompetitive strategy (proposition 1). Moreover, the model also states that a dominant ownership stake of the lead entrepreneur (proposition 2) and an independent board structure (proposition 3) would moderate this relationship.

3.2 Team Communication

According to group processes literature, communication efficiency is the key indicator of team performance (Eisenhardt & Schoonhoven, 1990; Shaw, 1981; Timmons, 1994; Watson, Ponthieu, & Critelli, 1995). It reflects a high degree of common understanding of goals and norms of doing things in a team (Gladstein, 1984), and a failure to communicate these values between founders and the rest of the entrepreneurial team members is problematic for venture growth (Timmons, 1984). When Chinese startups select hypercompetitive strategy as their growth strategy, ensuring a common understanding and acceptance of this strategy among the team members becomes critical. However, as we outlined earlier, hypercompetitive strategy is highly risky with potential rule-breaking practices that are often denounced by other firms from the industry. Consequently, the choice of hypercompetitive strategy is likely to face resistance from other entrepreneurial team members. When members are not on the same wavelength about strategies to be implemented, performance will decline (Watson et al., 1995). The nested entrepreneurial team structure can alleviate the potential resistance from the team. This structure treats members differently, where the lead entrepreneur demonstrates a superior ability to shape common ground among other team members such that his/her business vision about

hypercompetitive strategy is likely to become a common goal in team decision-making, understood and followed by other team members (Sah & Stiglitz, 1986; Witt, 1998). Direct empirical supports are few; however, indirect empirical results are encouraging. For example, in the emergent entrepreneurial teams where team members share equal structural power, communication frequency becomes higher than that in the nested teams. This high communication frequency often leads to conflicts and disagreements in the group, resulting in more meetings and written memos that divert from task-oriented activities, and reducing communication efficiency and ultimately group performance (Smith et al., 1994).

Proposition 1: For privately-owned Chinese startups, the nested entrepreneurial team structure enhances the team communication efficiency that ultimately facilitates the implementation of hypercompetitive strategy.

3.3 Dominant Ownership Stake

In the nested entrepreneurial team, the lead entrepreneur can further fortify the communication efficiency by gaining a dominant ownership stake in the team. The nested team structure can reduce the resistance from the rest of the team about the practice of hypercompetitive strategy, though it does not prevent challenges from competing views (Harper, 2008). As hypercompetitive strategies are typically against common sense, it is unavoidable that the lead entrepreneurs will face competing views on other less risky growth strategies. Prolonged discussions about the consequence of different growth strategies surfaced, slowing down the implementation process of hypercompetitive strategy. Yet, an effective hypercompetitive strategy depends on a quick external response to the environment (D'Aveni, 1994; Richardson, 1998), and an efficient implementation of the strategy (Eisenhardt & Martin, 2000; Ilinitich, Lewin, & D'Aveni, 1998a). The lead entrepreneurs seizing a dominant ownership stake in the teams will enhance their decision-making authority in the team, forcing an internal acceptance of hypercompetitive strategy despite the disagreement on the nature of the strategy (Schulze, Lubatkin, & Kino, 2003).

A dominant ownership stake of the lead entrepreneur also signals the unit of command, a key survival factor for startups facing great uncertainty (Prahalad & Hamel, 1990). It becomes increasingly more important to signal the unity of command when startups try to seek external financing to grow. In this case, a dominant ownership stake of the lead entrepreneurs strengthens the signaling effect, which is positively evaluated by potential angels and venture capitalists (MacMillan & Narasimha, 1987; Morrisette, 2007).

A powerful leader who acquires a dominant ownership stake in the entrepreneurial team also fits the cultural embeddedness of Chinese startups. We view this ownership structure as a means to leverage the social capital of the lead entrepreneur (Bourdieu, 1983; Coleman, 1988; Lin, 2001), who optimally utilize their connections within and between social networks, such that the productivity of individuals and the group increases (Putnam, 2000). China is a hierarchical society with a tradition of 'rule by man,' which is largely influenced by Confucianism, as opposed to the western tradition of 'rule by law' (Jacobs, Gao, & Herbig, 1995). 'Rule by man' resonated with the centralized monarchy for 2000

years, and it has formed the basis of leadership practice in business. Top decisions should never be questioned. It inevitably requires an establishment of certain mechanisms that optimally guarantee order and loyalty. Under the Chinese cultural context, the leadership backed up by a dominant ownership stake can enhance the leverage of the social capital to meet the unstable environment.

In short, a dominant ownership stake of the lead entrepreneur strengthens his/her decision-making authority in the communication processes, such that an efficient implementation of hypercompetitive growth strategy is achievable in the team.

Proposition 2: For privately-owned Chinese startups, a dominant ownership stake of the lead entrepreneur in the nested team can enhance the relationship described in proposition 1.

3.4 Independent Board Structure

Conflicting interests can arise in the entrepreneurial team according to behavioral economics (O'Donoghue & Rabin, 2000; Thaler & Shefrin, 1981). That is, the key decision-makers are not always wealth maximizers; they are motivated by various sets of preferences. For example, the lead entrepreneur enjoys the power of exercising authority and dictating strategies that can be egotistic and noneconomic in character. For instance, Jack Ma, the CEO of Alibaba, upon reflecting the role of a founder-manager (the lead entrepreneur) in startups, expressed that a successful founder-manager needs followers rather than challengers to his/her authority. If the lead entrepreneurs focus on satisfaction of noneconomic preferences, their interests may not be aligned with the best interest of the team and the firm.

Studies of behavioral economics also show that top executives exhibit risk-taking behavior, challenging restrictive risk-averse or neutral assumptions (Wiseman & Gomez-Mejia, 1998). In the case of startups that are facing growth concerns, the choice to quickly establish a strong market position is limited because of inadequate financial resources. How to grow becomes a critical strategic decision. Ideally, firms would pick a sustainable growth strategy that is less risky and promotes long-term health for the firm. When the urgency to grow increases, it becomes attractive to implement riskier growth strategy such as hypercompetitive strategy. Hypercompetitive strategy focuses not only on the speed of growth, but also the change of rules of the game in an industry. The implementation of such strategy can fail to generate a sustainable economic return (D'Aveni, 1994). The attractiveness of hypercompetitive strategy depends on how individual entrepreneurs frame problems associated with this strategy (Sitkin & Pablo, 1992). If entrepreneurs focus on the positive prospect of the risky hypercompetitive strategy, they would exhibit a risk-taking behavior; however, if they stress the negative prospect of such strategy, they would exhibit a risk-averse behavior. According to managerial risk-taking behavior, it is possible that the lead entrepreneurs frame hypercompetitive strategy positively if they are ambitious to grow fast, while the other team members who are more sensitive about job safety than the lead entrepreneurs frame hypercompetitive strategy negatively (Wiseman

& Gomez-Mejia, 1998). Conflicting interests surge, leading to agency problems caused by the lead entrepreneur.

Boards of directors function as a governance mechanism to control agency problems (Fama & Jensen, 1983). The board of privately-owned Chinese startups includes founders, and usually top executives, angel investors, strategy advisors, VCs, etc. Establishing the board of directors is one criterion for privately-owned Chinese startups that wish to go IPO on overseas stock markets. As the decision-making apex of the firm (Fama & Jensen, 1983), the board has the legal authority to examine, scrutinize, rectify and disapprove strategies proposed by the executive team (Johnson, Daily, & Ellstrand, 1996; Zahra & Pearce, 1989). In other words, the board has the veto power to block strategies if the board views them as harmful for the firm's long-term growth (Zahra & Pearce, 1989). Given the risky nature of hypercompetitive strategy, it is highly likely that the board will disapprove such strategy.

An independent board structure is positively associated with the board monitoring function. Although there are various views concerning the effectiveness of the board's independent structure (Daily, Dalton, & Cannella, 2003; Hermalin & Weisbach, 2003; Hillman & Dalziel, 2003; Jensen & Zajac, 2004), it is by far a manageable means that allows researchers and practitioners to study board monitoring functions. According to Hermalin and Weisbach (2003), board structural independence can be represented by the ratio of outside to inside directors, and the separation of the CEO and the board chair positions. Outside directors are those from outside the startup; inside directors are those from within the startup. A high ratio indicates that the board has a high level of structural independence. A separation of the CEO and the board chair positions—the lack of CEO duality, also indicates a high level of board structural independence.

When the board has less structural independence, the board operates less vigilantly to discipline the management. For example, studies show that boards with limited number of outsiders are more willing to implement risky projects measured by high R&D expenditures (Baysinger, Kosnik, & Turk, 1991). Similarly, when CEO duality is present, the board is said to be less powerful to exercise control over the management. However, researchers also point out, lacking CEO duality can impair the unit of command that a firm needs in an uncertain environment (Boyd, 1995; Finkelstein & D'Aveni, 1994). The incompatibility between the unit of command and the desired separation of the CEO from the board chair position casts doubts on the effectiveness of the independent structural feature, exemplified by ambiguous research results (Daily et al., 2003). It is possible that the inconsistent research result creates an opportunity for the lead entrepreneur to insist on CEO duality.

To conclude, an independent board structure can become an obstacle in implementing hypercompetitive strategy for privately-owned Chinese startups. The lead entrepreneurs have the incentive to reduce the board independence.

Proposition 3: For privately-owned Chinese startups, an independent board structure will weaken the relationship described in proposition 1.

4. Conclusion and Discussion

In this article, we argue that privately-owned Chinese startups are likely to adopt a risky growth strategy—hypercompetitive strategy—in order to achieve rapid growth. Speed and rule-breaking are two key features of hypercompetitive strategy. Building from discussions about entrepreneurial team structures, we argue that the choice of a nested entrepreneurial team structure supports the implementation of hypercompetitive growth strategy because this structure facilitates an efficient team communication. We also propose that the lead entrepreneur's dominant ownership stake in the nested team fortifies the above relationship, while an independent board structure undermines it.

We have shown that nine out of 22 privately-owned Chinese startups that are listed on NASDAQ and the Hong Kong Stock Exchange have adopted a growth strategy with strong hypercompetitive features in nature, and the rest have presented a moderate feature of hypercompetitive strategy (see Appendix 1). It is also interesting to notice that a lead entrepreneur appears in 17 out of the 22 startups, indicating the presence of the nested entrepreneurial structure. In the remaining five cases, there is more than one co-founder, with the largest founder-manager's ownership stake identifiable. Continuing this sample, we further explored the ownership stake of the lead entrepreneur or the largest founder-manager of the team and features of an independent board structure. The results are presented in Figure 2 and 3.

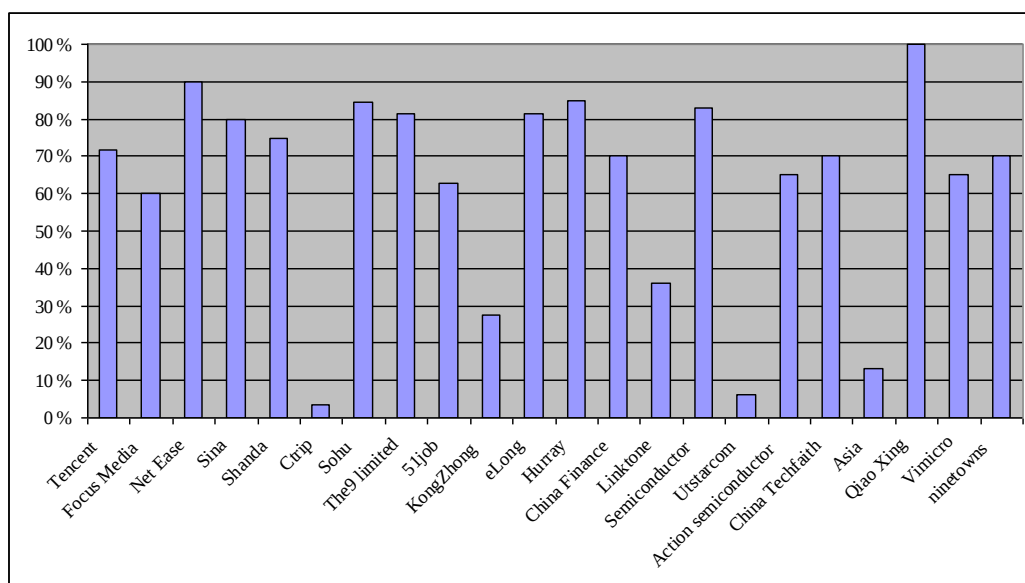


Figure 2. The lead entrepreneur's or the largest founder-manager's equity in the team

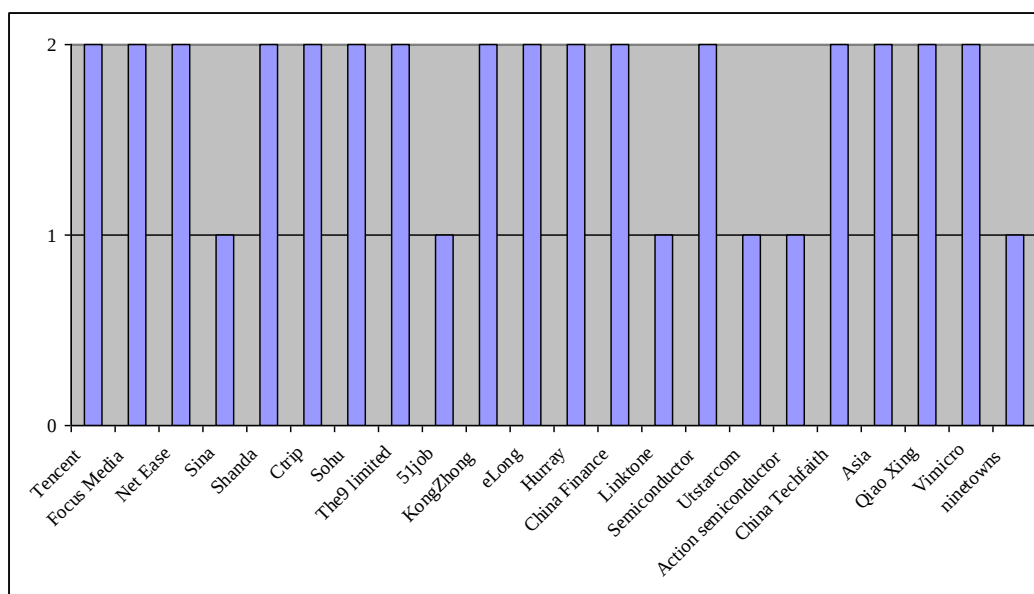


Figure 3. CEO duality status

Note 2. the CEO serves the board chair; 1: the CEO serves the board director.

In Figure 2, there are 17 key founder-managers (lead entrepreneurs) who obtained over 60% ownership, indicating they have obtained a dominant ownership stake in the team. These 17 startups also share a common feature of the nested entrepreneurial team structure. In the remaining five firms, the largest founder-managers hold similar equity stakes as the other co-founders (Ctrip, UTstarcom, LinkTone, KongZhong, and Asia). It seems to suggest that the lead entrepreneurs of the 17 startups prefer a dominant ownership stake in their corresponding entrepreneurial teams. In Figure 3, CEO duality exists in 16 of the 22 startups. In the remaining six startups, the CEO joined the board without chairing it. It is interesting to notice in two startups— 51jobs and Action Semiconductor —board chairs independent of the management team were chosen within six months before IPO. CEO duality may very well exist during the growth period prior to IPO for the two startups as well.

4.1 Benefits or Problems

The purpose of a business strategy is to achieve sustainable competitive advantage (Porter, 1985). Researchers, however, indicate that hypercompetitive strategies mostly generate short-term advantages (D'Aveni, 1994). This leads to the question as to whether Chinese privately-owned startups can obtain and maintain sustainable competitive advantages after they have reached market dominance. Researchers suggest that firms need to develop their core competence in order to achieve sustainable competitive advantages (Prahalad & Hamel, 1990). This may provide a direction for Chinese startups to consider while enjoying the benefit from hypercompetitive growth strategy.

A dominant ownership stake of the lead entrepreneur facilitates the implementation of hypercompetitive strategy, but at a cost. This type of ownership structure can create

governance problems for small shareholders, whose interests are expropriated by dominant shareholders. For example, as the dominant shareholder, the lead entrepreneur could enforce an internal acceptance of risky strategies and policies such as hypercompetitive growth strategy. Small shareholders oppose strategies because of their risky nature, but the lead entrepreneurs can suppress their voices. This kind of governance problems is often observed in emerging economies such as China (Chang, 2003). Researchers advocate that the establishment of the boards of directors could protect small shareholders' interests, but the benefit is difficult to realize if the board is not structurally independent from the entrepreneurial team.

4.2 Future Research

There are several limitations of the paper. First, we have not incorporated industrial effects in the theoretical model. Different industries may face various levels of environmental uncertainty, which can influence the adoption of hypercompetitive growth strategy. For instance, the environmental uncertainty facing the telecommunication industry is more intense and volatile than that facing the retail industry. Startups in the telecommunication industry are perhaps more motivated to adopt hypercompetitive growth strategy than those in the retail industry. Second, we have not conducted a rigid quantitative analysis to verify the model, and future empirical studies are needed to examine the proposed relationships. Third, it could be interesting to study the dynamic nature of ownership structure; that is, to investigate how the ownership structure of the team may evolve over time before and after an IPO, and how the change of the ownership structure affects the choice of hypercompetitive growth strategy. Besides those limitations, the paper presents a model describing how the nested entrepreneurial team structure supports hypercompetitive growth strategy adopted by Chinese startups, and how the ownership structure of the team and the board structure moderate this relationship.

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Appendix

Table 1. Growth Strategies of 22 Chinese Entrepreneurial Firms in TMT

Company name	IPO date	Industry (Market)	Lead or main entrepreneur(s)	Key growth strategies*	Degree **	Market position***
Tencent	2004	Instant Message Service	Huateng Ma	(a) Rule-breaking: free policy and internet dating center (b) Speed: 200 millions users within two years	10	1
Focus Media	2005	Life-style Media	Nanchun Jiang	(a) Rule-breaking: a new market created as 'focus media'. (b) Speed - within three years, 75 cities, 5000 supermarkets, and 100,000 outdoor spots	10	1
Net Ease	2000	Internet Portal	Lei Ding	Speed: the first Firebird BBS on ChinaNet (1996), the first free Web-based email service (1998), the most well-known Website (1999)	10	1
Sina	2000	Internet Portal	Zhidong Wang	(a) Rule-breaking: RichWin in fact largely used for coping pirated software(b) Speed: the first company to provide such software	10	1

Company name	IPO date	Industry (Market)	Lead or main entrepreneur(s)	Key growth strategies*	Degree **	Market position***
Shanda	2004	On-line Game	Tianqiao Cheng	(a) Rule-breaking: e-Sale system and Call-Center 24/7 service (b) Speed: within two years, the number of users grew from zero to 75 million	10	1
Ctrip	2003	On-line Travel Agency	Jianchan Liang, Qi Ji, Fan Min, Wei Shen	(a) Rule-breaking: Advanced ERP and call-center, one-stop shopping (b) Speed: 7 million members within three years	10	1
Sohu	2000	Internet Portal	Chaoyang Zhang	Speed: the first commercial portal in China, the first internet advertisement agent in China	9	top3
The9 limited	2004	On-line Game	Jun Zhu	Speed: The first successful virtual online community	8	2
51job	2005	On-line Job Hunting Service	Huirong Jia	(a) Rule-breaking: HR department-centered business model; (b) Speed: the first national-wide job-hunting online agent in China within 2 years	10	1
KongZhong	2004	Wireless Service Provider	Yunfan Zhou, Lin Yang	Speed: The market position changing from SMS to multimedia message service (MMS); the first mover in mobile WAP service	7	top3
eLong	2004	On-line Travel Agency	Yu Tang	Speed: Its marketing positioning strategy changing from a diversified business, to city life community, to hotel booking, and to hotel and flight ticket booking in four years	9	2
Hurray	2005	Wireless Service Provider	Qingdai Wang	Speed: Its marketing positioning strategy changing from a network software provider to a SMS provider, to a wireless game provider, and to a wireless music provider in three years	9	top3
China Finance	2004	On-line financial Service	Libo Zhang	Rule-breaking: 'free advertisement' marketing strategy	8	1
Linktone	2004	Wireless Service	Jun Wu, Xiaoli Shao, Haichao	Speed: Similar to KongZhong.	9	top3

Company name	IPO date	Industry (Market)	Lead or main entrepreneur(s)	Key growth strategies*	Degree **	Market position***
		Provider	Li, Lei Yang, Guangxin Li			
Semiconductor	2004	IC Foundry	Rujing Zhang	Speed: Localized service with low cost	5	3
Utstarcom	2000	Mobile (PHS) Design House	Hongliang Lu, Ying Wu	(a) Rule-breaking: PHS for low-end market; (b) Speed: the leading position within two years	10	1
Action	2005	IC Design House	Guangmin Zhao	Speed: Localized service with low cost products (MP3 Driver)	7	1
China Techfaith	2005	Mobile Phone Design House	Defu Dong	Speed: Localized design with focus on how it looks rather than how it works	9	1
Asia	2000	Internet Network Service	Jian Ding, Suling Tian	Speed: Localized service with low cost products	7	1
Qiao Xing	1999	Mobile Phone Design House	Zhizhong Wu	Speed: Localized service with low cost products	9	top3
Vimicro	2005	IC Design House	Zhonghan Den	(a) Rule-breaking: DSP-centered total solution with localization; (b) Speed: quick response in design-in service	10	top3
ninetowns	2004	B2B & B2G	Jun Zhu	Speed: Localized service with low cost products	8	top3

Note:

* The growth strategy is identified according to whether it achieved the firm's market position. Under 'speed', we show the policy and the result of implementing hypercompetitive strategies.

** We measure the degree of hypercompetitiveness by evaluating the features of speed and rule-breaking using existing market leaders, typically foreign-invested firms, as the benchmark.

*** It is the market position right prior to IPO.

Note

Note 1. Privately-owned Chinese firms refer to those with more than 50% ownership controlled by individuals with Chinese origin, and these firms' main business operations are carried out in the mainland China.