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RESEARCH ARTICLE

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Organizational Change in Difficult Times: A Case Study on the Top Management Team of Founder Group from 1999 to 2008

Abstract This paper examines organizational changes in Founder Group during 1999–2008, one of the leading computer manufacturers in China. It aims to reveal the basic logic behind the top management team's behaviors for organizational change in firms facing difficulties. Results show that building a strong management team is a prerequisite for successful organizational changes. Furthermore, there is evidence indicating that top managers should make strategic adjustment, and seek solution to cash-flow-related problems to achieve successful organizational transition.

Keywords organizational change, leadership, Founder Group, top management team, China

1 Research Background

In a changing business environment, a firm's ability to adapt to the environment becomes vital (e.g., Peters, 1987; Brown & Eisenhardt, 1998; De Geus, 1997; Hamel, 2002). However, due to the complex and dynamic nature of the economic environment, most organizational changes end up in failure (Beer & Nohria,

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2000). Therefore, changes at the organizational level have gained increasingly attention from the practitioners and researchers.

Most of the existing studies on organizational change are based on the contingency theory, complexity theory, and chaos theory, and the focuses are contents, backgrounds, conditions, general processes, measures, and influencing factors of, or leaders' role in organizational changes (Armenakis & Bediean, 1999; Lüscher & Lewis, 2008; Armenakis & Harris, 2009). Whereas studies have unfolded how organizations promote organizational changes effectively, studies focusing on the top management team's thinking and behavior logic in successful organizational changes are still lacking.

Moreover, most studies concerning organizational change are conducted in developed countries. Little research has been carried out in emerging economis like China. Over the past three decades, China has been experiencing a huge social-economic transition. Its economy has grown rapidly, and the whole society has undergone dramatic changes. During this period, many Chinese firms conducted organizational reforms and gained sustainable and rapid growth in the transition period. However, the practice of Chinese firms in the transitional period exhibits Chinese characteristics, which might not be fully explained by the contemporary mainstream organizational change theories. Therefore, studies on organizational changes in Chinese firms in this transitional period are of significance to the enrichment of existing organizational change theories.

This study focuses on organizational changes in Founder Group, a leading computer manufacturer in the mainland of China, and identifies the basic logic that a firm in difficulties should follow in promoting organizational changes. In doing so, we first review the extant literature and describe the research method that we adopt. Then, we analyze the Founder Group's case in details. Several propositions are further developed. The limitations of this study and the directions for future researches are discussed in the end.

2 Literature Review and Research Methods

2.1 Behavior of Top Management Team in Organizational Change

A top management team's thinking and behavior logic of organizational change refers to the basic paradigms, guidelines or modes that top managers follow when promoting continuous changes in their organizations.

Beer & Nohria (2000) distinguished between two theoretical approaches to

organizational change: theory E (to maximize economic value) and theory O (to develop organizational capability). Theory E focuses on the creation of shareholder value as the only legitimate primary objective in organizational changes. Such initiatives are characterized by short-term financial outcomes, including heavy use of economic incentives, layoffs, downsizing, and restructuring. Theory O strives to build and strengthen corporate culture, and emphasizes sustainable, long-term results and continuous learning and improvement strategies. According to Beer & Nohria (2000), the most effective way for organizational change is to combine Theory E and Theory O to improve effectiveness and profit simultaneously. De Geus (1988) studied the development of Shell Corporation, and pointed out that the growth of a firm is an outcome of alternation between "survival" and "expansion": At the "survival" stage, a firm is confronted with trouble and difficulties, and at the "expansion" stage a firm gains good opportunities to develop. This means that a firm needs to prepare for the upcoming opportunities for rapid growth at the trough, and prepare for the forthcoming tough times at the peak. Armenakis, Harris, & Mossholder (1993) and Armenakis, Harris, & Field (1999) proposed five key principles a firm shall follow to accomplish organizational changes, namely discrepancy, appropriateness, efficacy, principal support, and valence.

The extant literature has attempted to reveal the logic of top managers on initiating organizational changes. However, do organizational changes in Chinese firms follow the same paradigms as in western countries? Or do organizational changes in Chinese firms have unique characteristics? This paper attempts to answer these questions based on an in-depth case study on Founder Group.

2.2 Research Methods

Case study is often adopted for explanatory or exploratory research, and a single case study has an advantage over multiple case studies in its revelation of more details in case description (Eisenhardt, 1989, Eisenhardt & Graebner, 2007; Yin, 1994). As this paper tries to explore Chinese firms' "unique" organizational change process, we choose a single case study. More specifically, it tries to derive several propositions on organizational changes in the Chinese context by conducting an inductive study on a well-known Chinese firm.

In September 2009, the authors reached an agreement with Founder Group on jointly developing a series of teaching cases about strategy and business models, management control, branding and human resources. After two interviews with

You Li, the CEO of Founder Group, we got to know the following facts: In 1999, Founder Group was in a mess and faced the danger of going bankrupt. However, it was revived in 2009 and became one of the leaders in Chinese electronic industry, ranking No.118 in the top 500 Chinese companies. We therefore decided to conduct an inductive study on the firm, aiming to answer two core questions: What happened in Founder Group during 1999 and 2008? What were the roles of key leaders played in these organizational changes?

Data were collected from several sources: (1) face to face interviews, including three with Mr. Li, the CEO of Founder Group. And we also interviewed five of Founder Group's senior managers, including Mr. Feng, the Senior Vice President, Mr. Fang, the Senior Vice President, 22 middle managers, and subsidiaries' top managers, including Mr. Zheng, the general manager of strategic planning department in Founder Group, and Mr. Feng, the vice president of PKU International Healthcare Group, a Founder's subsidiary. These interviews produced almost 55 hours' tape-recorded data; (2) archival materials provided by Founder Group according to our requested checklists; (3) Founder Group's websites; (4) reports and comments by mainstream media on Founder Group at different historical stages.

After data collection, we coded the data in chronological order, identified the key historical events, and formed a sequence table on the major events that happened in Founder's organizational changes from 1999 to 2008. During the data processing, we used the data collected from the four different sources to cross-check one other in order to increase the reliability of data. Furthermore, guided by existing literature on organizational change, we studied Founder Group's organizational changes from 1999 to 2008 and tried to find out the basic logic that a firm in difficulties should follow to conduct organizational changes. Propositions based on our findings were developed accordingly.

3 Data Analysis

3.1 Founder Group's Profile

Founder Group Corporation (Founder Group) was founded in 1986. At that time, it was a university-owned enterprise[1], whose development mainly relied on the laser typesetting technology invented by Mr. Xuan Wang, a famous professor in Peking University. After 20-year development, Founder became a large

[1] Founder Group was owned by Peking University when founded.

enterprise with approximately 80 manufacturing subsidiaries and over 30,000 employees. In 2009, Founder Group had a total annual revenue of 48 billion yuan, annual profit of 2.5 billion yuan, total assets of 48 billion yuan, and net assets of 21 billion yuan.

3.2 Difficulties in 1999

In the middle of the 1990s, Founder reached its peak after it had operated for ten years. In 1995, it took up almost 90% of domestic market share of electronic publishing for newspapers and black-and-white books, and 80% of overseas market of Chinese newspaper electronic publishing system. Meanwhile, it ranked as the second largest PC manufacturer in China. However, in the late 1990s, the global PC market entered a new competition era of lower profit and throat-cutting competition. Founder therefore tried to find new growth paths by diversifying into various industries, including real estate, infrastructure, fine chemicals, biotechnology, spices, diamond, jewelry, food, e-commerce software, decorative glass, plastic mold, instrument, advertising, management consulting, education, audio-visual products, knitted fashion, finance leasing. Founder attained, however, little impressive achievements in diversification, and the situation soon worsened rather than improved. In 1998, both Founder Technology Group Corporation and Beijing Founder Electronics Co., Ltd., the two listed subsidiaries, which constituted Founder Group's core businesses, registered serious deficits. In the first half of 1999, the performance of these two subsidiaries fell sharply.

The continuous decline evoked a dispute within Founder's top management team. In September 1999, Mr. Wanchun Qu, the representative of the second largest shareholder of Founder Holdings Limited (a Founder Group's subsidiary listed in Hong Kong), wrote to the leaders of Peking University, the largest shareholder, and Founder Group's Board and requested that Wang should resign from Founder Group. At the same time, Mr. Qu released a public announcement to the media, claiming that Wang should be responsible for Founder Holdings Limited's shrinking market value from 5 billion HK dollars in 1995 to merely 0.6 billion HK dollars in the early 1999, and Founder Research Institute's failure to launch any promising new products since 1995. He believed that Wang "does not have enough time and energy for management. He is rather a 'social celebrity' than an entrepreneur" (Zheng & Liu, 1999).

Yufeng Zhang, chairman of the Founder Group's board, supported Qu

publicly and viewed the event as an important signal of change for Founder Group. Nevertheless, other senior managers did not agree with Zhang. They wrote a petition letter to the leaders of Peking University, in which they insisted that Zhang should resign and Wang should remain in his position as the CEO of Founder Group.

The conflicts in top management team exposed the weaknesses in Founder's laissez-faire management mode, in which the linkage between parent company and subsidiaries was not tight. The group headquarters decentralized almost all of its power and had little control on its subsidiaries. Each subsidiary operated separately, and the group headquarters could not even supervise the subsidiaries' financial operation. The group's board rarely discussed the corporate strategy of the whole group and individual subsidiaries. Under such circumstances, even if the headquarters had promoted strategies, no subsidiary was willing to implement them. Founder's headquarters were nothing but an "empty shell."

Poor market performance and management chaos made Founder Group a "focus" of public media in the period, and most news and reports about Founder were negative.

3.3 Measures Taken by Founder Group during the Change Process

3.3.1 Rebuilding Top Management Team

In November 1999, Peking University decided to rebuild Founder Group's top management team, with Zhang leaving Founder Group and Wang leaving Founder Group's board but remaining his position as the chairman of Founder Holding Limited (a subsidiary of Founder Group).[2] Meanwhile, Mr. Weifang Min, the vice president of Peking University, was appointed as the chairman of Founder Group's board. Mr. Xin Wei was appointed as the vice chairman of the board and in actual charge of the board's daily affairs. Wei had been the assistant of Min, when Min was the dean of Peking University's School of Education and then the vice president of the university.

At the beginning of his work in Founder Group, Wei was under great pressure. Both the leaders of Peking University and the senior managers in Founder Group believed that Founder must develop better. Then Wei made three promises at his

[2] Peking University might take many measures besides deciding to let Zhang and Wang quit the top management team. However, there was no doubt that Peking University firmly believed that neither of them was able to bail Founder Group out of the plights.

inaugural speech: “firstly, I won’t seek any self-interest from my position, and I am also firmly against others to seek self-interests at the cost of Founder’s interests; secondly, I won’t form any clique with others, and I am also firmly opposed others to do so; thirdly, although my ability is limited, I will try my best to unite the staff and make Founder a better company.” In the later years, Wei kept these promises.

Shortly after his appointment, Wei experienced the first conflict, from his attempt to exert more control over a subsidiary, the Founder Technology Group Corporation. At that time, Yuxing Group, allying with other companies, was actively purchasing the shares of Founder Technology Group Corporation in secondary stock market, in order to obtain the control right of this public corporation. Facing such a challenge, Founder Group started to compete for shares and real control against Yuxing Group. Founder finally managed to maintain its position as the largest shareholder in Founder Technology Group Corporation. During this period, Mr. You Li, the representative of China Hi-Tech Group, a shareholder of Founder Technology Group Corporation, supported Wei. Wei found that Li was aspiring and has unique insights on the current dilemma and future development of Founder. Wei talked with Li for a whole night about how to get out from current difficulties. Later he decided to sincerely invite Li to join Founder Group. After Li accepted his invitation, Wei persuaded the other senior managers to agree to Li’s participation in Founder’s top management team and Li was appointed as the CEO of Founder Technology Group Corporation in June 2001. In November, Wei was appointed as the chairman of Founder Group’s board. In July, 2002, Wang quitted Founder Group. In June, 2003, Founder Group shuffled its top management team again. Li was appointed as the CEO of Founder Group. Among the new board directors, three senior managers were in the top management team since Wang and Zhang’s era. In addition, a human resources director invited from Siemens and two other “outsiders” joined the board. A new top management team was finally formed, in which Wei was the chairman of the board and Li the CEO. This team was stable in the following years till the end of 2008.

3.3.2 Reestablishing the Leadership Authority

The first challenge Li faced was to prevent Founder from going bankruptcy. What impressed Li most was that Founder Group had little control over its subsidiaries. For example, in 2001, Li arranged a trip to Shanghai to meet the

general manager of Founder Computer Company, a subsidiary of Founder Group. However, the subsidiary manager put off the meeting again and again. When they finally met each other, the manager required that the meeting should not be longer than 45 minutes, because he had some other arrangements. Several months later, Li met the general managers of the other subsidiaries to understand these subsidiaries' situations comprehensively. However, at the meetings, more than half of these managers did not report to him. Li later recalled this meeting when he was interviewed in 2009: "Founder Group was a typical university-owned enterprise then. The most obvious characteristic of university-owned enterprise is that there is no rule, as every general manager thinks that he has enough capabilities to run the subsidiary on his own. In my view, Founder Group had no rule before 2001."

Recognizing the lack of control over subsidiaries, Li requested the board to authorize his management team with full autonomy in matters concerning human resource appointment, promotion and removal. The board approved this request. Li then met all the subsidiary managers in person and listened to their reports. Meanwhile, he clearly pointed out to these managers he had decided to strengthen its supervision on the subsidiaries. Meanwhile, he also told the managers that anyone who was against such a decision should either choose to resign or to be removed.

3.3.3 Centralization

In early 2004, Founder Group announced that it would reconstruct its managerial control system according to "one principle and five centralizations." "One principle" refers to the centralization of control at the corporation level, and authorization of operation at division level. "Five centralizations" refers to centralization of power in finance, human resource, investment, branding and internal control at the corporate level.

(1) Financial management. The financial managers of the subsidiaries are assigned and assessed by the group. The group's financial center, which functions as an internal bank, manages the cash flow of subsidiaries. Besides the listed subsidiaries, which must manage their own finance according to related regulations, all the other subsidiaries must deposit their idle capital in the group. The group would pay interest for the deposited funds, and consider it in the profit indices used in the yearly assessments of the subsidiaries' performance. For subsidiaries which always borrowed money from the group, the group would

calculate the interest cost of the loan and deduct it from the subsidiaries' profit index used in performance assessments.

(2) Human resource management. The group developed a series of management systems and tools useful in building management teams. These systems and tools were developed by studying the human resource practices of benchmarking companies, the latest academic trends in management fields, research results of leading consulting companies, or internationally accepted rules of human resource management. Meanwhile, managers in the key positions of each subsidiary were appointed and appraised by the headquarters in Beijing.

(3) Investment management. Any subsidiary's investment project exceeding 5 million yuan should be arranged by the investment department of the group, and should not be implemented without the board's approval.

(4) Branding management. The group unified its brand conception, simplified and unified its brand vision system, and built its brand architecture system. Meanwhile, the group regulated its subsidiaries concerning the policies and processes of media communication, advertising, marketing, brand licensing, visual communication systems, and enterprise journals. The group required its subsidiaries to conduct brand communications according to unified plans.

(5) Internal control management. The group required that all the loan assurance shall be arranged by cash management department, the internal assurance be examined and approved by the group's CFO, and the external assurance be approved by the group's Board. All the subsidiaries' bank credits were managed by the group. The group's auditing and legal affairs department was responsible for assessing and monitoring its subsidiaries' auditing and legal affairs. Meanwhile, more rules and regulations were established on property right management, legal service for important projects, contract management, litigation management, intellectual property rights, and coordination of outside legal resources.

3.3.4 Utilizing Idle Assets

In 2002, Li and the other senior managers found that Founder Group had little disposable financial resources. In the past, Founder Group provided financial support for its subsidiaries by getting loans from banks, but charged no interest from its subsidiaries. The consequence was, however, that Founder Group's debts exceeded 1 billion yuan while its disposable cash was only a few million yuan and its net assets were less than 60 million yuan. In particular, Founder Group had been unable to obtain any new loan from banks by mortgages or any

other means. For example, the Bank of China rejected Founder's application for 200 million yuan in 2002. Moreover, the group could not raise funds from outside. From the perspective of its top management team, the group should utilize its idle assets firstly in order to improve its financing capabilities, and there were two necessary measures: improving its balance sheet and acquiring assets for mortgage.

At that time, some local state-owned enterprises had been poorly operated as they were "lagged behind" in reforms. As these enterprises were becoming increasingly serious fiscal burdens, local governments were eager to sell them at a very low price—only one yuan in some extreme cases. Considering that Founder Group was a large state-owned enterprise and its largest shareholder was Peking University—one of the two top universities in China, local governments often consider Founder Group as a good potential partner when selling money-losing state-owned enterprises. After careful consideration and repeated discussion, Founder's top management team concluded that some state-owned enterprises were still viable acquisition targets because their assets were in good quality, even though they were in difficulties currently. Hence, Founder Group acquired Zhejiang Securities, Suzhou Steel Group, Southwest Pharmaceuticals and a few other local state-owned enterprises.

Among the acquired enterprises, Zhejiang Securities had been warned for its violation of securities market rules by China Securities Regulatory Commission in 2002. Besides, its qualification for self-operated business was revoked, and the illegal gains from the violations were forfeited and it was punished with a fine of 500 million yuan. However, Founder Group thought that Zhejiang Securities still is a promising company if proper asset restructuring could be implemented. Hence, it acquired 51% of the shares of Zhejiang Securities and renamed it as Founder Securities.

Similarly, Suzhou Steel Group, another acquired company by Founder Group, lost 200 to 300 million yuan each year around 2000. After a careful assessment, Founder concluded that Suzhou Steel Group's internal control system was full of loopholes, which was the main reason for its loss. However, it would have great potentials after turnaround. In addition, Suzhou Steel Group owned thousands of acres of land. In May 2003, Founder Group acquired 90% share of Suzhou Steel Group by investing 50 million yuan.

Southwest Pharmaceuticals, a public company, had been at a loss and in heavy debts. In September 2003, with the invitation of Chongqing Municipal Government, Founder Group increased its share in Southwest Pharmaceuticals to

70% and became the actual controller.

Founder Group's total assets and net assets increased substantially after these acquisitions, with its total assets exceeding 21 billion yuan and net assets exceeding 4 billion. Meanwhile, its fixed assets increased to 5.4 billion yuan in 2004 from 1.3 billion yuan in 2001, and revenue increased to 16.1 billion yuan in 2004 from 8.7 billion yuan in 2001. Afterwards, Founder Group acquired Daxin Pharmaceuticals, Hangzhou Suneng Machinery Co., Ltd. and a few other companies who were in temporary financial difficulties but have quality assets. At the end of 2004, Founder Group had disposable funds of several billion yuan. Later, Founder Group's Vice President Yangjun Xia commented on these dazzling measures. He said: "For the new management team, it was important to establish the headquarters' authority firstly. We expended more than two years to improve balance sheet and financial capabilities. During those years, Founder Group acquired several troubled companies whose assets were in good quality. These acquisitions helped Founder grow substantially and quickly. The headquarters were at last able to apply for new loans from banks by using newly acquired assets and improved balance sheet. In addition, thanks to these acquisitions, the top management team was able to rebuild their authority and positive image."

3.3.5 Back to Previous Strategy and Re-Positioning

In November 2001, Wei proposed that Founder Group should diversify its businesses on the basis of specialization. This proposal was approved by the board. At the end of 2003, Founder Group released this new strategy, which meant Founder Group would regard IT as the first core business, while healthcare and pharmaceuticals as the second one. Other businesses should support these two core businesses. Moreover, Founder Group would integrate all its businesses and expand by selective and related diversification, based on specialization and high-tech innovation.

Nonetheless, before 2005, Founder Group focused on implementing "one principle and five centralizations" to improve its financial capabilities by acquiring several state-owned enterprises, so that the above corporate strategy was put aside temporarily. After these measures came into effect, the previous strategy was given considerations again.

In 2005, Founder Group formed a strategic planning team, composing of staff from different departments in the group. Based on surveys and analysis, the team

pointed out that IT was the traditional business in Founder Group. Although the gross profit margin ratios of both laser typesetting and PC were very low, Founder Group was still very competitive in these two markets. Meanwhile, the group's other businesses are related to the two core businesses, such as PCB, chip manufacturing and digital copyright protection systems, displayed strong potentials. Besides IT industry, Founder Group also had a good start in the health care and pharmaceuticals industry. Founder Group took over an international hospital program from Peking University in 2004. This program was welcomed by the central government that was determined to establish a world-class international hospital. In addition, Southwest Pharmaceuticals, Daxin Pharmaceuticals, Wuhan National Pharmaceuticals and some other pharmaceutical companies previously acquired by Founder Group, started making profits.

The team finally formulated a strategy in 2007. The strategy suggested that the group's development be driven by IT and healthcare and pharmaceuticals, and radically cut its non-core businesses. The team definitely believed that once such a strategy would have been implemented successfully, Founder Group would become a company with two strong core businesses and its competitiveness would be among the top domestic companies in three years. In 2008, Founder Group paid efforts to promote businesses restructuring and adjust business composition under the following ways:

Firstly, Founder Group set up four business groups named as IT Business Group, Healthcare and Pharmaceuticals Business Group, Finance Business Group, and General Business Group, in order to assemble the businesses that have strong internal linkages with each other, and strived to build a platform for businesses to support each other.

Secondly, Founder Group cut some non-core businesses, raised funds by various means and continued to invest in the two core businesses. From 2006 to 2008, Founder Group's total investment was 9 billion yuan, of which 41% went to IT business and 39% to healthcare and pharmaceuticals.

In addition, Founder Group grasped the opportunity to develop the finance business. China's stock market became prosperous in 2006 after five years' downturn. Founder Securities solved all the historical problems left over by Zhejiang Securities and launched new businesses quickly and aggressively. Meanwhile, it entered into other financial fields such as investment bank, trust, futures, funding, financial companies, and commercial banks by merger and acquisition and establishing joint ventures.

Founder Group also entered into real estate business in 2006, starting from its taking over of the poorly performing Peking University Resource Group (PURG), a university-owned company with a debt as high as 2 billion yuan. Two years later, PURG turned loss into profit.

3.4 Results of Founder Group's Organizational Change

In 2008, Founder Group's revenue reached 45 billion yuan and profit was 2 billion yuan. Meanwhile, its annual total assets reached 40 billion yuan, and annual net assets were 16.2 billion yuan. Founder Group's profit in 2008 accounted for about 70% of the total profit of all the university-owned enterprises in China. At the end of that year, Founder became the second largest PC manufacturer in China. Founder's Chinese publishing system boasted a share of 90% in domestic market, and its digital broadcasting system accounted for 70% market share among provincial TV stations in China. The PCB business income ranked the second in domestic PCB industry, its health care and pharmaceuticals business revenue reached 3 billion yuan, and its land reservation was a round 8,000 acres. Meanwhile, its securities business's total assets reached 17.166 billion yuan, net assets were 6.426 billion yuan, and net capital was 4.585 billion yuan. Founder's brokerage business ranked the 14th and profit ranked the 6th in domestic brokerage market. According to data released by the Ministry of Industry and Information Technology of China in 2008, Founder Group ranked the third in the list of top 100 electronics and information technology enterprises in China, following Huawei and Haier.

4 Findings

The great achievements manifested Founder's successful organizational changes from 1999 to 2008. By analyzing Founder Group's organizational changes, we developed several propositions on the top managers' thinking and behavior logic for a firm in difficulties to change successfully.

4.1 Impact of Difficulties on Top Leaders' Positions

Founder Group faced serious difficulties in 1999, due to its poor performance in 1998 and the first half of 1999. As a matter of fact, Founder had been experiencing a "recession" since 1995. During the period, the group's top

management team endeavored to find new growth points, but without success. Due to its poor financial performance, Founder faced serious conflicts within its top management team: as mentioned earlier, the then CEO Wang, though contributed greatly to Founder Group's development at early stages, was criticized publicly by Qu; Zhang, another important senior manager in Founder, officially ended his cooperation with Wang after more than a decade's personal friendship. All these indicated that a leader's status in a firm largely depends on his/her firm's performance: When a firm's performance is far from satisfactory, its leader's capability will be seriously doubted, although in some cases the fault might not lie in the leader himself/herself (e.g., Collis and Montgomery, 2005).

In fact, when a firm experiences financial difficulties, its top management team will have to either make changes or leave. In most cases, controlling shareholders would choose to replace the current management team to change the top management team's behaviors (McCall, 1998). Therefore, the leaders in firms with poor performance have two choices—positive adjustment or passive adjustment. The former refers to that the shareholders authorize the current top managers to adjust managerial team and propose viable solutions that can turn loss into profit. Passive adjustment, however, means that the firm dismisses their current senior managers and finds new ones, and authorizes the new top management team to conduct organizational changes. It is obvious that passive adjustment happens when shareholders lose trust in the leaders and do not believe that they are able to improve firm performance again. Founder Group's case falls in the second category. Therefore, we developed the first proposition:

Proposition 1: When a firm faces continuous poor performance and conflicts, the leaders will lose the chance of self-adjustment and be forced to leave, unless they could make shareholders have confidence in their capability to achieve organizational changes successfully within a limited amount of time.

4.2 The Principles for Rebuilding Top Management Team in Difficult Times

If a firm in difficulty has suffered passive adjustment, what kinds of top management team are more likely to promote organizational changes successfully?

Wei faced great pressure at the beginning of his appointment, and promised that he would spare no efforts to make Founder Group bigger and stronger. Similarly, the first thought occurred to Li after his appointment as the new CEO was that Founder Group should not, at any cost, go bankrupt. These simple thoughts show that the new leaders of Founder Group have intensive sense of

mission and responsibility. Such leadership characteristics are vital for firms in difficulties.

It is no doubt that the new leaders' excellent administrative capabilities are more important than the sense of mission and responsibility. However, it is hard to know whether the candidates for new leaders have the capabilities to guide the firm out of difficulties when the new management teams are being built. In this situation, how should the firm evaluate the candidates' capabilities and select the right candidates?

The reason that Wei was appointed as the Vice Chairman of Founder Group in 1999 was that Min, the vice president of Peking University, who was newly appointed as the chairman of Founder Group board, had been familiar with Wei. When teaching in the School of Education in Peking University, Wei was Min's assistant and he was appreciated by Min for his outstanding abilities. After Min was appointed as the chairman of Founder Group board, he tried his best to persuade Peking University authorities to appoint Wei as the vice chairman. Thus, the abilities displayed at work when Wei was the assistant of Min was an important basis for his appointment as the new leader of Founder Group. After Wei's appointment, he displayed his administrative abilities in protecting controlling power over Founder Technology Group Corporation, which enabled him to be promoted from vice chairman to chairman.

Li got the opportunity to work in Founder Group since Wei discovered him. As mentioned above, Li was the representative of China Hi-Tech Group at that time, which was an important shareholder of Founder Technology Group Corporation. Meanwhile, Li was the CEO of China Hi-Tech Group, which was a listed company, and thus he was experienced in managing a big company. Moreover, during his conversation with Li, Wei found that Li has good insights and can always come up with clear solutions to Founder's long-existing problems, which made Wei finally make up his mind to invite Li to join Founder Technology Group. When Li worked in Founder Technology Group as the deputy president, the firm's performance was improved steadily. As a return, Li was promoted as the CEO of Founder Group later under Wei's strong recommendation. Thus, we can conclude a proposition on selecting the new leaders as follows:

Proposition 2: A strong sense of mission and responsibility is a necessary character for newly selected leaders in a firm in difficulties. Previous work experience and capability of analyzing, thinking and solving problems are

important considerations when choosing new leaders for firms in difficulties. Candidates with a strong sense of mission and responsibility, outstanding capability are always better at showing their capabilities in short term, and thus are more likely to be selected as new leaders.

Since Wei's appointment as Founder Group's vice chairman and was in charge of the Board's affairs, Peking University had authorized Wei the power of supervision and administration. When Wei recommended Li as a new CEO for Founder, the board members did not agree with him at first. However, they finally pledged to give him full support. Later, with the requirement of Li, the board, with Wei as its chairman, decided to authorize Li sufficient administrative rights, which even included the right of appointing and dismissing middle managers. Such authorization played an important role in facilitating new organizational changes in Founder Group.

In fact, a firm in difficulties will confront with various kinds of tough problems. In Founder's case, there existed different voices about how to conduct organizational changes. Some subsidiaries and employees did not agree on the solutions put forward by senior managers. Nonetheless, the situation requires the leaders to make decisions quickly and take actions decisively. Obviously, only the leaders with fully authorization can make well-communicated, rapid response and take actions simultaneously. Therefore, we conclude the third proposition as follows:

Proposition 3: A fully authorized new top management team is conducive to improving the effectiveness and efficiency of organizational changes in firms facing difficulties.

4.3 Path Selection of Promoting Organizational Change for New Management Team for Firms in Difficulty

The new top management team of a firm in difficulties gives top priority to avoid bankruptcy. The question was: How can the new top management team promote organizational changes effectively?

As mentioned above, soon after their appointment, Founder Group's new management team realized two most obvious problems: (1) Each subsidiary operated independently, paying little attention to orders from the headquarter. (2) The parent company hardly had any disposable resources. Therefore, the team gave priority to centralize Founder's administrative power and collecting

idle assets.

However, the tough situation in Founder made it difficult for the new top management team to raise sufficient funds to fulfill organizational changes. Moreover, Founder Group's capital chain was extremely volatile.

The centralizing measures included gathering the subsidiaries' idle funds and utilizing idle assets. Owning to these measures, the flowing-back cash to the headquarters slowly increased. Therefore, we propose the following:

Proposition 4: There always exist several urgent problems for a firm in difficulty. Thus, taking precisely-targeted measures to resolve these problems is a good break through point for promoting organizational changes. Meanwhile, the survival of a firm in difficulty may be threatened by capital chain collapse. Therefore, at the beginning of organizational change, a very important task is to raise all disposable capital inside or outside, to release the profound pressures caused by inadequate cash flows.

Wei's proposal that Founder Group should diversify its business on the basis of specialization was approved by the group's board in early November, 2001. However, this strategy was not put into effect until 2005. In other words, the strategy that had been approved in 2001 was put aside. Instead, Founder Group centralized the subsidiaries' authorities in finance, investment, and tried hard to gain an access to financial channels and acquired many state-owned enterprises. The former action encountered fierce opposition from the subsidiaries, while the latter encountered criticisms and doubts from outside. For example, some criticisms said that Founder Group now starts to "take medicines" as well as "produce steel." Despite various oppositions, the reason for Founder Group to choose this "risky" strategy is that it can increase the possibility of survival for the group. Whereas, after the problems on cash flow became less serious in 2004, Founder Group began to reconstruct its businesses in 2005 and shifted back to limited diversification strategy.

Unlike firms in prosperity, firms in difficulty must prepare for short-term survival and long-term development (De Geus, 1997), so the most important thing is how to avoid collapsing into failure. This requires the firm to give top priority to dealing with the crisis, accessing the situations and working out emergent strategies to reduce the threats to survival (Bowman, 1990). After the strategies come into effect, the firm can then shift back to development.

Before the organizational changes, Founder Group's core businesses were

Chinese laser typesetting system and PC manufacturing. Amidst this transition, Founder Group acquired several state-owned enterprises in security, trust, pharmaceuticals, steel and others, and then took over the program of Peking University International Hospital, which Li described vividly as "scavenging." Although the initial main purpose was to gain access to financing with the help of the acquired companies, the new top management team tried their best to take these companies out of plight. Meanwhile, it adjusted the group's development strategy based on these acquisitions, and proposed a strategy that the group's development should be driven by IT business, and healthcare and pharmaceuticals business under the guidance of selective and related diversification based on specialization. Afterwards, there was a burst of prosperity in the national security market, and financial business developed rapidly. Under this circumstance, Founder Group regarded security and finance as its important businesses. After Founder Group took over Peking Resource Group, the real estate business developed rapidly. Thus, Founder Group listed the real estate businesses among its core businesses.

The above facts indicate that the action of implementing emergent strategy may result in changing a firm's business portfolio significantly. At the same time, external forces may also have impact on the firm's business selection. As the firm's markets and internal resource conditions changed dynamically, it must adjust its businesses flexibly alongside in the context. Thus we conclude the last proposition shown as below:

Proposition 5: Top management team of a firm in difficulty must work out the emergent strategy to take the firm out of plight, with "survival prior to development" principle. Either the implementation of an emergent strategy or the change inside and outside a firm, may lead to the change of a firm's business portfolio. As a result, the new top management team must adjust the firm's development strategy.

5 Conclusion and Research Limitation

By analyzing Founder Group's organizational changes from 1999 to 2008, this research finds out the following thinking and behavior logic of a top management team when the firm is facing difficulties: (1) positive adjustment, (2) shuffling top management team, (3) survival by emergent response, and (4) developing dynamically.

Firstly, a firm's leaders are always required to take responsibilities for the difficult position. If the leaders are unable to make positive adjustment efficiently, reshaping the top management team will become inevitable under the pressure from shareholders. Secondly, building a powerful top management team is an important prerequisite for promoting organizational changes successfully. A firm in difficult position has much more requirements for their new leaders' qualities and abilities. The new leaders should have strong senses of mission and responsibilities, good potential, the abilities to show their talent by actions in short term, and diversified background. Thirdly, once the new top management team is built, the team's abilities and actions will decide whether the firm could get out of plight. Comparing with long-term development, walking out of the current difficulties is a more critical task. Hence, the new leaders have to identify the urgent problems and take pertinent measures in time. Most emergent problems are caused by cash flow shortage because of continuous bad performance. Furthermore, the new top management team should stick to the principle of "survival prior to development," and implement an emergent strategy that can bail the firm out of difficulties. However, once the firm's difficulties are released, the new top management team should pay their attention to sustainable growth issues in time. Lastly, during the whole change process, the new management team must adjust the firm's businesses flexibly and clarify the strategic directions of the firm dynamically.

The above conclusions are drawn from the practice of Founder Group's organizational change. These conclusions have validated related theories to some extent, and have also enriched existing theories. First, Founder Group's practice indicates that neither Theory E nor Theory O is fully consistent with the reality of organizational changes in Chinese firms. Founder Group confronted not only the pressure from its largest shareholder—Peking University, but also the pressure from its employees, Peking alumnus, and the public. As a result, its organizational changes aimed at not only creating more values for its shareholders, but also strengthening its employees' confidence. There are evident signs of centralization in the case of Founder Group's change. Meanwhile, such a change also stresses more on organizational structure and control system. These measures are in accordance with Theory E to some extent. It is due to the disunity in Founder Group at the early stage of its change and had something to do with the fact that Chinese firms have to make decisions and take actions quickly while facing the dramatically changing and complex external

environment. In fact, over the past three decades, most Chinese firms, which successfully struggled out of difficulties, preferred Theory E as their guidelines. However, those getting out from serious difficulties or those developing steadily are more willing to combine Theory E and Theory O. Second, De Genus (1998) emphasized that we should treat the firm's situations dialectically and well prepare for the coming changes in advance. From Founder Group's case, we concluded that a firm in difficulty must stick to the principle that "survival prior to development." This conclusion indicates that a firm in difficulty can hardly fully prepare for the future change after the firm extricates itself from a predicament. Of course, they can adjust their businesses dynamically to gain long-term development after stepping out of plights in the first place, a conclusion well consistent with De Geus's theory. Thus, for a firm whose survival is threatened, long-term strategies are more likely to emerge at middle and late stages, rather than at early stages when the firm's very survival is threatened. Finally, the five principles proposed by Armenakis, Harris, & Mossholder (1993) and Armenakis, Harris, & Field (1999) were all supported in Founder Group's case. Especially, the effective measures adopted by the new top management team of Founder Group after their appointment were well consistent with the principles of efficacy and principal support.

This research does have limitations. First, it is based on a single case of Founder Group. Although we did our best to summarize the process of Founder Group's organizational changes with data obtained from face-to-face interviews, archival data and published materials, the results may still be affected by certain processes and the methods of data collection and processing, and the description may not accurately reveal the practice of Founder Group's changes. In particular, the authors failed to interview Mr. Wei, the chairman of Founder Group board and some senior managers worked at Founder Group around 1999. Second, this article attempted to find out the basic logic for Founder Group's successful organizational changes. However, our findings may not have included all the critical "success factors" for Founder's organizational changes. Finally, since our conclusions are drawn from a single case, the conclusions may not be generally applicable to all the firms in difficulties. Therefore, while this paper focuses on developing several theoretical propositions based on a typical case, follow-up studies are needed to identify the practice of Founder Group's organizational changes more comprehensively and deeply. Meanwhile, more cases are needed to either support or reject the above propositions. Similarly, large samples and

statistical analysis are necessary to test these propositions.

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