

Part I – Objective description and background information about Xiaomi

Introduction

Xiaomi has become one of the most influential smartphone manufacturers and the market leader in the Internet of Things (IoT) in less than a decade (iResearch, 2018). The firm's inspiring leader, robust financial performance, innovative business model, and unique marketing approach make it an ideal case study of business best-practice.

Founded in April 2010, Xiaomi Corporation (“xiao” – “small” and “mi” – mobile internet in Chinese) became public in July 2018 when it was listed on the Hong Kong Stock Exchange. Its three major divisions are Smartphones, IoT and lifestyle products, and internet services. The firm prides itself on its powerful IoT platform integrating smartphones and smart hardware. With more than 213.2 million smart devices across 90 countries, it is the world's largest consumer IoT hub and the fourth-largest smartphone maker. Xiaomi calls its strategy “the triathlon model” because of the unique integration of software, hardware, and internet services (Mi Global, 2020).

Xiaomi's mission is “to relentlessly build amazing products with honest prices to let everyone in the world enjoy a better life through innovative technology.” Its guiding vision is “be friends with our users, and be the coolest company in the hearts of our users” (Xiaomi, 2019, p.17) The firm strives to realise these through an unyielding focus on efficiency and quality. Xiaomi is determined in its commitment to co-innovation by allowing its client base to be the driver behind product development. The top leadership team is exclusively Chinese and the culture is customer-centric with the motto “just for fans” (Mi Global, 2020).

Market overview

Xiaomi has become a top 4 smartphone manufacturer worldwide with 6% of the market trailing only Samsung (25%) and Apple (12%) within a decade of its inception (Safiya and Shylesh, 2019). Although it is number one in China with 15% market share, it is just beginning its expansion overseas. Xiaomi's popularity in the country has reduced Samsung's share to less than 14%, while Lenovo and Huawei have kept theirs stable. The global market was previously dominated by Apple and Samsung who commanded high price

premiums. According to Safiya and Shylesh (2019) Samsung struggles to compete in the highest-end range with Apple and is seeking other niches. Xiaomi, on the other hand, the authors suggest, is disrupting the industry by offering a choice that competes on design and hardware with the top dogs but has a lower price.

A brief SWOT analysis conducted by Safiya and Shylesh (2019) suggests that Xiaomi's strengths are its trusted brand in China, relatively lower prices, novel approach to marketing, adaptable products and effective online business model. On the other hand, it has struggled to attract loyal customers outside of China due to low brand recognition and there is still some room for improvement in its quality and after-sales service, which the company is addressing as will be discussed in a subsequent section. Some of the opportunities that the market presents come from demand for high-tech low-priced phones. Furthermore, the firm can benefit from expanding its retail presence and leveraging its distinctive branding and ecosystem to create a unique user experience. Finally, Xiaomi faces the threats of potential price wars with low-cost peers, established brands entering its market segment, overreliance on online distribution channels, and loss of supply chain control (Safiya and Shylesh, 2019).

Another important consideration related to Xiaomi's market position is its relationship with the Chinese government. The firm set up a Communist Party committee in 2015 following the example of several other big non-state-owned companies (Gao, 2015). According to the same source, Lei Jun, the company's founder, has been a representative of the National People's Congress (NPC), China's legislative body, since 2013. It is also worth noting that when Xiaomi became public, six of its seven anchor investors were organisations owned by the state (Lucas, 2018). The relationship is mutually beneficial, of course. At the 2018 annual NPC gathering, Jun was present as a delegate and proposed steps supporting the international expansion of Chinese brands in markets from Xi Jinping's "One Belt, One Road" commerce programme (Horwitz, 2018).

History and leadership

Lei Jun, Xiaomi's CEO, was born in 1969 in China's Hubei Province. When he was 18, he started studying at Wuhan University's Department of Computer Science. As an exceptional Go (traditional board game) player, Jun had the analytical skills that made him an exceptional programmer. After gaining all required credits for graduation in just two years he created software and co-authored a book on programming at age 20. In 1991, Jun met his

idol, the founder of Kingsoft – Qiu Bojun at a computer exhibition. Recognising Jun's talent, Bojun hired him and the two of them were instrumental for Kingsoft's success. Jun left the firm after its initial public offering (IPO) in 2007 and focused on nurturing tech entrepreneurs as an angel investor (Xu, 2015).

Lei Jun had dreams beyond his success as a programmer, corporate leader and entrepreneur. With a growing demand for Android-based devices in China and Google's exit from the market due to censorship from the government, Jun saw a perfect opportunity. He formally established Xiaomi in 2010 aiming to capitalise on these changes (Giachetti, 2018). He wanted to create a product as good as Apple's but no one would manufacture it for him, so he was forced to place a large order at a significant cost. However, in September 2011, the first Xiaomi M1 smartphone was launched and sold an impressive 300,000 units in its debut day (Xu, 2015).

Often compared with Steve Jobs, Lei Jun politely explained that he would have been honoured by the comparison when he was younger but at his current age doesn't like being seen as second to anyone (Griffiths, 2014). Still, his marketing and self-promoting skills have helped Xiaomi receive far more attention than peers. Unlike other tech leaders with strong personalities, however, Jun never yells at employees, listens well and is solution-oriented with a soft character (Tin-Yau, 2017). Raju (2019) also highlights Lei Jun's curiosity, daring, vision, passion, and integrity as fundamental qualities of his leadership that enabled the firm's success.

Jun also demonstrates several qualities associated with charismatic leadership. Raju (2019) highlights Jun's understanding and confidence in his staff demonstrated in his open letters to employees. His presentations are visionary and exciting while setting clear goals and direction. This motivates and inspires employees further highlighting Jun's powerful charisma. It is also worth adding that during a turbulent time in his career Lei Jun took a six-month break from his career encouraged by his partner and mentor at the time Qiu Bojun (Xu, 2015). Most of his time was dedicated to reading and studying the leadership of Mao Zedong according to the same source.

Business growth

According to Xiaomi's (2019) latest annual report, the firm has demonstrated a solid financial performance with increasing revenues and profits over the last four years (**Figure 1**).

Figure 1 - Xiaomi's income statement for the past 4 years (Xiaomi, 2019)

Condensed consolidated statements of comprehensive income

	Year ended December 31,			
	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Revenue	174,915,425	114,624,742	68,434,161	66,811,258
Gross profit	22,191,939	15,154,205	7,249,355	2,699,933
Operating profit	1,196,472	12,215,467	3,785,064	1,372,670
Profit/(loss) before income tax	13,927,124	(41,829,352)	1,175,509	(7,472,511)
Profit/(loss) for the year	13,477,747	(43,889,115)	491,606	(7,627,030)
Profit/(loss) attributable to owners of the Company	13,553,886	(43,826,016)	553,250	(7,581,295)
Total comprehensive income/(loss) for the year	11,921,632	(35,994,749)	(6,307,155)	(13,136,127)
Total comprehensive income/(loss) attributable to owners of the Company	11,989,243	(35,922,124)	(6,254,475)	(13,098,817)
Non-IFRS Measure: Adjusted net profit/(loss) (unaudited)	8,554,548	5,361,876	1,895,657	(303,887)

The firm's year-on-year (YoY) growth across key metrics averaged well above 50%. Xiaomi reports performance across its distinct segments: smartphones, IoT and lifestyle products, and internet services. In the financial year ended December 21, 2018 smartphone sales grew by 41.3% YoY. The firm was one of the few among peers to maintain a high growth rate. Xiaomi focuses on the mid- to high-end market in mainland China. Its revenue growth was primarily driven by successfully increasing its average selling price (ASP). Revenue in the IoT and lifestyle products grew by 86.9% in the same period. A large proportion of this growth was fuelled by the rise to prominence of large home appliances. In the same year, Xiaomi received 43 international design awards and initiated IoT expansion overseas. Internet services revenue grew 61.2% YoY with advertising as the biggest contributor. The firm attempts to diversify the sources of its revenues in this category and expand its international presence (Xiaomi, 2019).

Xiaomi experienced 118.1% YoY growth in revenue from international markets. Global sales were 40% of the total compared to 28% a year earlier. Smartphone shipments for India were one of the prime contributors to the firm's international growth (Xiaomi, 2019). Indonesia and Western Europe made good progress as well. The IoT segment also performed well with ambitions for more significant contribution over the coming years. From a strategic perspective, the firm embraced a multi-brand approach where Xiaomi competes on quality and Redmi on price. The firm also invested significantly in efficiency and quality improvements (Xiaomi, 2019).

Xiaomi will be focusing on internal processes, innovation, and quality improvements for its joint strategy for smartphones and IoT. Overseas expansion by replicating best practices from mainland China will remain a priority. The focus for the home market will be on enhancing retail capabilities to strengthen both online and offline distribution channels. Xiaomi will be improving its internet services in the country with a view of diversifying its client base. The primary drivers of growth will be IoT-device-based services as well as internet finance and the Youpin platform (Xiaomi, 2019). Independent equity research firms have indicated their confidence in the firm's ongoing profitability by issuing "Buy" ratings with robust price targets (AMTD, 2019; China Renaissance, 2019). It is also noteworthy that the firm exceeded RMB100 billion of revenue within 7 years of its creation where other tech giants had taken nearly twice as long (Raju, 2019).

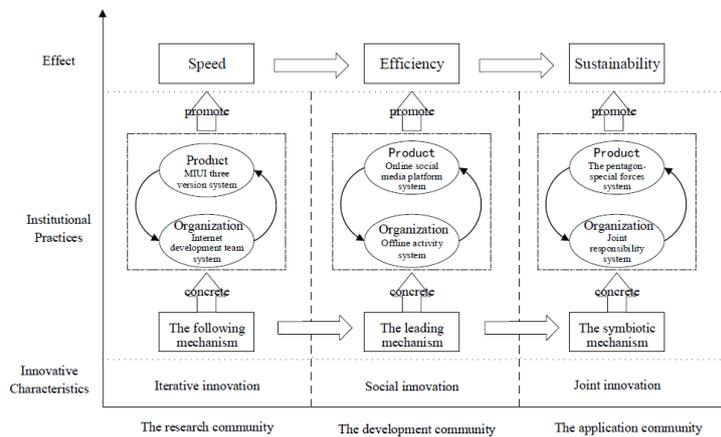
Innovative business model

According to Raju (2019), Xiaomi demonstrated innovation across several key building blocks of business model innovation. The firm's value proposition of providing a high-end smartphone for a reasonable price gave customers more value compared with competitors' higher prices for similar products. Unlike dominant smartphone companies targeting affluent consumers, Xiaomi discovered a young tech-savvy segment with unlimited passion and limited financial resources. The firm's approach to customer relations relying almost exclusively on social media and enabling co-creation of products and features was an example of radical business model innovation. The exclusive online sales versus the typical 'brick and mortar' retail chains of competitors and the reliance on low-cost advertising on social media were key differentiators with positive profit impact. Finally, in contrast with competitors, the firm established a distributed business ecosystem integrating expertise from partners and startups, while offering financial and technical support in return (Raju, 2019).

Xiaomi's institutional design is key to its sustainable long-term innovation capability (Ortiz *et al.*, 2019). The firm has managed to engage its partners and users in an open innovation ecology. User suggestions drive the upgrades of products to meet expectations in a process of *iterative innovation*. Interactive exchange of ideas across media channels enables *social innovation*. Xiaomi develops products in collaboration with partners demonstrating *joint innovation*. These three types of innovation are enabled by three approaches that the firm uses to coordinate the participation of partners and users (**Figure 2**). The *following approach* adapts product development based on user feedback for iterative innovation; the

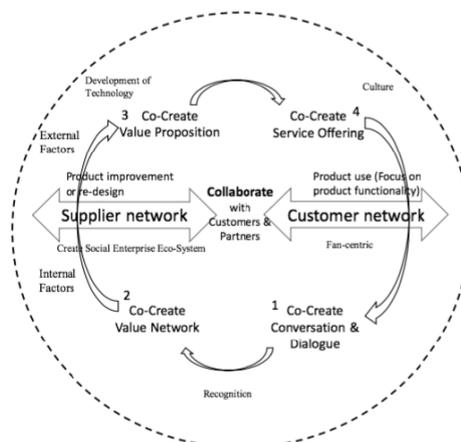
leading approach proactively invites and manages user participation in the creative process for social innovation; the *symbiotic approach* ensures joint innovation by sharing resources and information and distributing risks across the partner network. Ultimately creating an innovation ecosystem was enabled by Xiaomi's reliance of social over administrative institutional logic (Ortiz et al., 2019).

Figure 2 - Institutional practices of Xiaomi's open innovation ecology (Ortiz et al., 2019)



Kuo, Luarn and Chen (2017) suggest that Xiaomi's collaborative model enables value co-creation through a service-dominant logic where the emphasis is on interactions with customers and partners rather than just transactions. The firm engaged consumers and suppliers in collaborative conversations on the messaging platform Miliao well-before launching its first smartphone in. Lei Jun himself encouraged co-creation in the value network by facilitating cooperation among suppliers according to the authors. Xiaomi also acts as an intermediary between clients and suppliers by communicating feedback that assists product development and demand determination. The firm's ability to create a strong sense of identity by making each partner feel part of an extended family is integral to its collaborative business model (Figure 3).

Figure 3 - Xiaomi's business model for value co-creation (Kuo, Luarn and Chen, 2017)

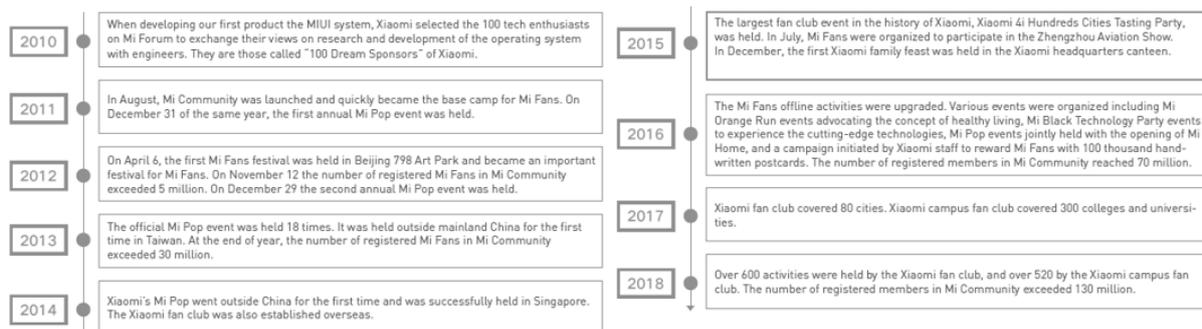


Marketing

Xiaomi's success cannot be attributed exclusively to its great products. Sampi (2014) claims that the company's approach to the 4Ps of marketing (product, price, place, and promotion) is also fundamental to its triumph in China. Creating a high-quality phone at a reasonable price, instead of poor quality, low price device was a key strategic move that enabled Xiaomi's dominance. Furthermore, developing its version of the Android OS called MIUI, enabled the firm to excite its fans with novel features. Xiaomi's price strategy of selling near cost was not sustainable, so the firm embraced a model similar to Amazon where a significant part of the revenue comes from aftersales of content and services. China was the firm's main market for nearly five years, accounting for over 90% of revenues (Sampi, 2014).

Although Xiaomi did a great job with the product, price and place parts of the marketing mix, it was truly exceptional in its promotion. The firm leveraged the power of word-of-mouth to execute flash sales campaigns driven by anticipation and urgency. The company leveraged social media not just for broadcasting but for active dialogue with its consumers. This enabled the establishment of dedicated brand advocates that create excitement, attract new followers, and do a lot of marketing for Xiaomi for free (**Figure 4**). Finally, Lei Jun, the firm's CEO, capably nurtures the aura of coolness around the brand by borrowing best practices from China's beloved Steve Jobs (Sampi, 2014).

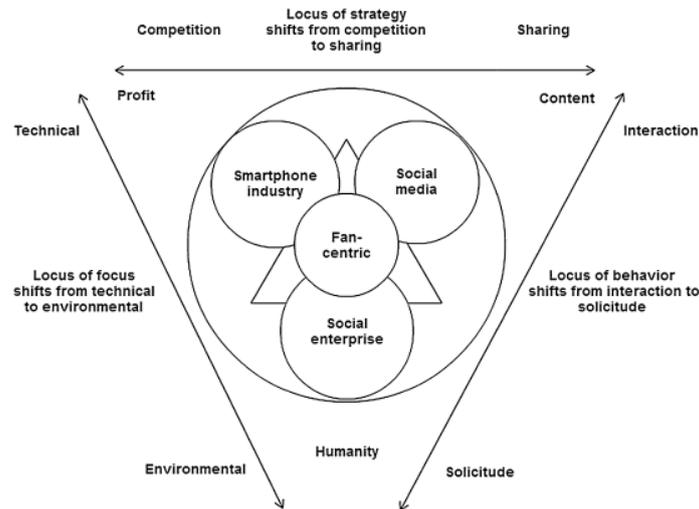
Figure 4 - Chronological development of MiFans (Xiaomi, 2019)



Lun and Yazdanifard (2014) suggest that Xiaomi's low-cost marketing was key to the firm's initial success. They claim that after reaching 70 million users on its MIUI operating system the firm had an active fan base on social media. Then the use of the firm's mascot MiTu and eye-catching attractively-priced product promotions on social media fuelled powerful word-of-mouth marketing. Furthermore, Shih, Lin and Luarn (2014) studied Xiaomi as an example of a 'fan-centric' social media business model (**Figure 5**). They

discuss the firm’s framework for building a powerful fan base through engagement on interesting topics, honest and transparent communication, pro-active management of reviews, and creating a family feel through events and rewards.

Figure 5 - Fan-centric social media business model



More precisely, according to Tian (2018), Xiaomi uses specific strategies and tactics to engage its customers successfully. The three strategies focus on “perfect product” through an unwavering focus on improvement and weekly updates, “fans management” that strengthens relationships through trust, and a “we-media” content strategy that accelerates information flow and eliminates information asymmetries through user-generated content. On the tactics side, “open participation” is about including customers in all stages of the value chain (from idea generation to branding), “interaction design” ensures that all client touchpoints are created for two-way communication, and “word-of-mouth marketing” spreads key messages rapidly and organically (Tian, 2018). Finally, Xiaomi’s successful entry and expansion in India further demonstrates the robustness and adaptability of its marketing strategy (Rawal, Awasthi and Upadhayay, 2017; Panigrahi, 2019).

Conclusion

Exploring Xiaomi reveals a lot of valuable business lessons. It is evident that the firm’s strategy and its approach to execution follow organically from its vision and mission. Although its global expansion is in its early days, Xiaomi is already the world’s fourth-largest smartphone brand and the largest in China with solid government connections. The founder and CEO of the firm, Lei Jun, is instrumental to its success. He is not only an exceptional

software developer and entrepreneur but also a charismatic leader. Jun's excellent marketing skills balanced by a gentle personality make him popular among employees and customers. Xiaomi's impressive growth has led to revenue levels that comparable firms took twice as long to reach. Furthermore, this growth is consistent across the firm's segments and is likely to continue due to international expansion.

Xiaomi's innovative business model is unique among its peers. Its institutional design enables a collaborative and distributed business ecosystem that facilitates value co-creation. Customer and partners are active participants in the development and refinement of products and features. The firm's approach to marketing enables its exceptional products to reach a large and engaged fan base. Through extensive use of social media, Xiaomi keeps advertising costs low, builds excitement and integrates consumer insights into its product roadmap. In response, loyal advocates do a lot of marketing on the company's behalf through word-of-mouth and social influence. Ultimately, beyond being an exceptional business with huge growth potential, Xiaomi's case study offers practical insights into Chinese business in general.

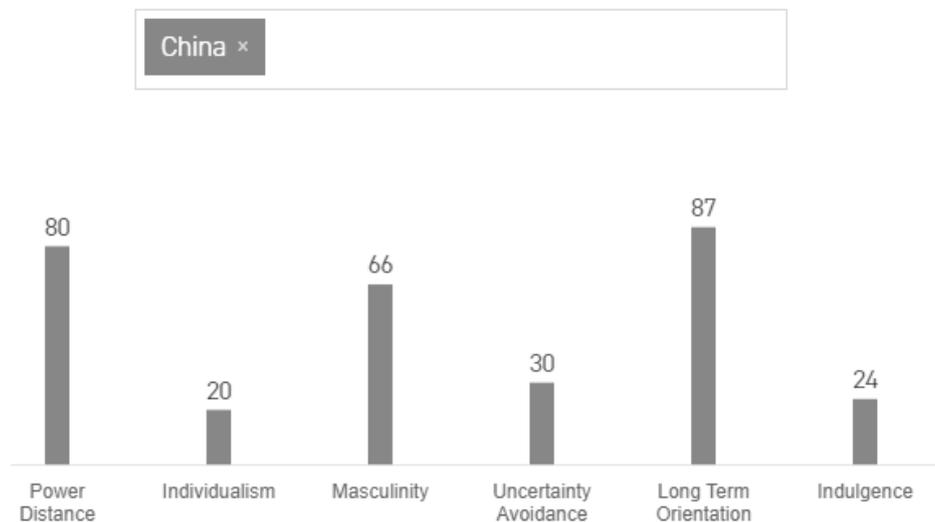
Part II – What can we learn from Xiaomi about Chinese business?

Xiaomi's is a useful case study offering valuable lessons for doing business in China. From the enigmatic effect and influential network of its leader to the unprecedented evangelism from fans, subtle nuances reveal insights that can inform us about the intricacies of growing a company in China.

In exploring Xiaomi's background and development, the role of its leader becomes evident to me. Lei Jun consistently demonstrates a commitment to group-oriented values by emphasising collaboration with partners, personally engaging with customers and praising employees in open letters. China is very high on Power Distance and very low on Individualism according to Hofstede's (1993) six dimensions of culture (**Figure 6**). In a society where individuals are significantly influenced by formal authority and favour acting in the name of the group over self-interest, Jun's leadership style is proving extremely popular. Accordingly, my first proposition is that group-centred charismatic leadership is

especially effective in a collectivist culture like China, which aligns with some of the existing research as well (Stajkovic, Carpenter and Graffin, 2005; Wu and Wang, 2012).

Figure 6 - China's profile according to Hofstede's 6D model (Hofstede Insights, 2020)



Mr Lei Jun also comes across as a very well-connected man. He was instrumental in the growth and leadership of several enterprises and mentored numerous startups as an angel investor. In his time as a leader of Xiaomi, he continued to expand his network through the distributed innovation ecosystem of the firm and consistent engagement with customers. Above all, I believe that one of the most valuable assets in his network were his ties with the government. This leads me to my second proposition, which is that a business owner's network size is a key predictor of enterprise growth in China. This is also supported by literature with the concept of comprehensive social competency as a mediator for expansion (Zhao, Frese and Giardini, 2010).

The rapid growth and success of Xiaomi would have been impossible without the support of its dedicated fan base. Beyond the effects of word-of-mouth marketing and social network influencing, Chinese consumers vote their confidence in Xiaomi with their purchasing decisions. He and Wang (2015) suggest that cultural identity increases preference as well as purchasing of domestic brands in China. This effect is even more pronounced in the field of internet services. There is a widening gap between the preferences for domestic over foreign providers because of their superior quality, and the influence of word-of-mouth marketing (Oh and Zhang, 2010). My third proposition builds on and integrates the insights from these two papers and the presented case study. Chinese consumers demonstrate a

marked preference for local brands that deliver quality, engage them via social media, and come into their awareness from person-to-person communication. The caveat to my proposition, of course, is that the brand needs to give back in the relationship by providing value to clients in the form of quality, rewards, or participation in the creative process.

My propositions can be translated into an integrated recommendation for businesses seeking opportunities in China. The heads of such companies must demonstrate group-centred charismatic leadership and be well connected with consumers, peers, partners and the government. If foreign companies want to leverage the opportunities of the Chinese market, they would benefit from establishing a local brand name and building its prominence among consumers through social media and word-of-mouth.

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