

INSTITUTIONAL CHANGES AFFECTING ENTREPRENEURSHIP IN CHINA

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Abstract:

Institutions influencing entrepreneurship are undergoing significant transformation in China. During the Mao era, private entrepreneurship was virtually eradicated and was a political taboo. As reflected in the macro-level economic data, there has been an evolution of entrepreneur-friendly institutions in the country. A constellation of factors linked to China's global integration is pushing through fundamental changes in institutions related to Chinese entrepreneurship. The logics or governance structures and organizing principles related to entrepreneurship are rapidly changing in the country. This paper examines forces influencing the diffusion of instrumental values promoting entrepreneurship among Chinese institutional actors.

Keywords: China; institutions; entrepreneurship; legitimacy; instrumental values; deinstitutionalization.

Article:

1. Introduction

Institutions influencing entrepreneurship are undergoing significant transformation in China. During the Mao era, for instance, private^a entrepreneurship was virtually eradicated and was a political taboo (Guiheux, 2006; Loyalka and Dammon, 2006; Peng, 2004). Entrepreneurship was "shunned" in the country as late as the 1980s (Wehrfritz and Seno, 2003) and "the entrepreneur" as an occupation was often considered for individuals that were not able to find other jobs (e.g., those with criminal records) (Nair, 1996).

In recent years, China has earned a reputation as one of the world's most entrepreneur-friendly country. In a telephone poll conducted among Americans by Zogby International and 463 communications, 49 percent of the respondents said that China or Japan provide the "creative and entrepreneurial milieu required to form the world's next technological innovator" (America, 2007). Only 21 percent said that "the next Bill Gates" will be from the US. These observations indicate that deinstitutionalization of established practices or displacement of the Mao era's "ceremonial patterns" of behavior by the "instrumental patterns of behavior" (Bush, 1987) across various groups of institutional actors have occurred in the country inducing entrepreneurship. Indeed, today's China differs drastically in terms of formal and informal rules of games influencing entrepreneurship. Chinese Communist Party (CCP) leaders have publicly acknowledged the benefit that entrepreneurs and capitalists can bring to the economy (Hoogewerf, 2002). The CCP has welcomed entrepreneurs in the inner circle and upper echelons of the party (Pomfret, 2001; The Economist, 2003). Entrepreneurs are gaining more respect in the society (Loyalka and Dammon, 2006). As to the perception of "the entrepreneur" as an occupation, a recent survey conducted among Chinese found that 70 percent of the respondents thought entrepreneurship was a good career choice (Gangemi, 2007).

The evolution of entrepreneur-friendly institutions and China's quantum leap on the entrepreneurship front are reflected in the macro-level economic data. Entrepreneurialism is booming in China (Gangemi, 2007). As of 2005, China had 24 million small independent companies and the number was growing at 15–20 percent annually (Loyalka and Dammon, 2006). During 1988–95, an estimated 30 million self-employed workers emerged in rural China (Rozelle et al., 1999) and self-employment grew even faster in the coastal provinces (Mohapatra et al., 2007). Nationwide small and medium sized enterprises (SMEs) account for 75 percent of

new jobs (Loyalka and Dammon, 2006). For most of these firms, entrepreneurship is playing an important role (Daokui Li et al., 2006).

The pace and proliferation of research focusing on institutional influence on entrepreneurship have been slow. To more fully understand the institutions-entrepreneurship nexus, in this article, we integrate and apply findings in literatures on institutional theory to propose a framework, which identifies clear contexts and attendant mechanisms associated with institutions-entrepreneurship linkage in China.

In the remainder of the article, we first discuss the importance of studies on institution-entrepreneurship linkage. Next, we review the theoretical foundation. Then, we translate the theories within the context and limits of China and attempt to explain the nature of Chinese institutions influencing the country's orientation towards entrepreneurship. The final section provides conclusion and implications.

2. Importance of Studies on Institution-Entrepreneurship Nexus in China

We argue that institutions-entrepreneurship nexus in China, while well documented, is only partially understood. Indeed, very few studies have explicitly examined institutional aspects of entrepreneurship. The existing studies narrowly focus on culture (Busenitz et al., 2000) and a number of them have linked Hofstede's (1980) cultural dimensions — especially individualism — to examine a country's propensity to engage in entrepreneurial activities. Other researchers, however, point to declining differences in development across cultures (Baumol, 1986) and global diffusion of entrepreneurial institutions (Gereffi and Hempel, 1996) such as IPO markets in countries considered to be “non-entrepreneurial” (Edmundson et al., 1996). These studies provide support for the notion that culture alone is insufficient to describe cross-country differences in entrepreneurship. This is an important gap in the literature since economic, political and legal institutions play critical roles in shaping entrepreneurship (Djankov et al., 2006). Referring to China, Guiheux (2006) argues that entrepreneurship in the country can be attributed to initiatives coming from society (informal institutions) and the setting up of a new legal framework (formal institutions). To broaden our understanding of drivers of entrepreneurship, researchers have emphasized the necessity to study a broader set of institutions (Busenitz et al., 2000) and complex interactions between different kinds of entrepreneurs and the institutional environment (Yang, 2002).

Second, Harper (2003) proposes that developing countries characterized by collective culture may have different social organizations impacting on entrepreneurship patterns. However, scholars have overlooked the ways in which social organizations in these countries influence entrepreneurship.

Third, analysts disagree on the role of the government in shaping the Chinese entrepreneurship landscape. Some scholars (e.g., Moore, 1997) have argued that close state control has led to the failure of apparently-abundant Chinese entrepreneurship. Likewise, an editorial in *Beijing Review* (2007) cites a *China Youth Daily* columnist, who commented that the government lacked programs to encourage entrepreneurs. Others argue that China has “inbuilt” and “government-fostered” mechanisms to promote entrepreneurship (Monro, 2007). Forecaster Gerald Celente recently put the issue this way: “China is invigorated with a sense of entrepreneurship that is supported by its government, while in the US, such a spirit is on the decline” (*USA Today*, 2006).

Fourth, the linkage between China's transition to market economy and development of entrepreneurial thinking is also of profound interest to management and economics scholars. China has followed a trajectory significantly different from those of Eastern Europe and the Soviet Union. For instance, China's reform is described as “gradual”, “partial” and “experimental” compared to Eastern European countries' “rapid”, “comprehensive” and “big-bang” (Qian et al., 1999; Jones, 2004). Comparing China's approach with that of the East European economies, Overholt (1994) argues: “Instead of focusing on the destruction of socialist institutions, China has concentrated on the construction of market institutions.” China has thus undergone a transition to market economy without any “alteration in political structure” (Nee, 1992; Solinger, 1995). Hodgson (2006) comments on China's move into a competitive world markets, driven by rapid innovation: “China's economic dynamism is unsurpassed among countries nominally under communist rule. Much more

than any of the former Soviet Bloc countries..., China has a very long history as a singular state. Its modern state has retained a strong regulatory role even after the abandonment of comprehensive central planning.” The literature, however, provides little insights into the impact of Chinese political structure on entrepreneurship and associated mechanisms.

Finally, an important but under-examined issue with respect to institutional theory has been the patterns of institutional changes (Campbell, 2004). Scholars have not paid much attention to “when, why and how” organizational actors influence institutional changes (Burns and Nielsen, 2006).

3. Institutional Changes Affecting Entrepreneurship: Theoretical Explanations

Notwithstanding their connotation of inertia, resistance to change (Hoffman, 1999), persistence (Parto, 2005), durability (Hodgson, 2003) and stability (Scott, 1995, 2001), institutions are subject to change. Institutions arguably have a higher propensity to change when they are characterized by contradictions that “create conflicting and irreconcilable incentives and motivations” (Campbell, 2004; Lieberman, 2002; Schneiberg, 1999). Put differently, institutional change can be seen as an outcome of the dynamic interactions of contradictions and “praxis” (Seo and Creed, 2002). Seo and Creed (2002) have proposed four sources of contradiction: “(1) legitimacy that undermines functional inefficiency, (2) adaptation that undermines adaptability, (3) intra-institutional conformity that creates inter-institutional incompatibilities, and (4) isomorphism that conflicts with divergent interests.” These are arguably accumulated results of organizations’ continuous isomorphic adaptations (Burns and Nielsen, 2006). First, conformance to the existing institutions may be at the expense of technical and functional efficiency. Second, continuous isomorphic adaptations may lead to psychological and economic “lock-in” and “competency traps”, which may undermine further adaptability. Put differently, “adaptive moves make adopters less able to adapt over the long run” (Seo and Creed, 2002). Third, the legitimacy seeking process may require appeasing multiple institutions that are conflicting and inconsistent. Finally, misalignment between institutions and the divergent interests of actors embedded in the institutions may lead to contradictions.

Of greatest relevance here, from the standpoint of the Chinese entrepreneurship landscape, is reference (3) above, which may warrant elaboration. Seo and Creed (2002) note that “...conformity to certain institutional arrangements within a particular level or sector may cause conflicts or inconsistencies with the institutional arrangements of different levels or sectors.” Organizations may face numerous pressures for conformity to different and contradictory expectations (Meyer and Rowan, 1977). For instance, the major institutions and beliefs embedding Chinese government— the CCP ideology, the World Trade Organization (WTO) membership, Chinese nationalism, market orientation — have interdependent but contradictory (Seo and Creed, 2002) “central logics” (Friedland and Alford, 1991).

Scott (2001) has proposed three institutional change mechanisms: institution formation, deinstitutionalization, and reinstitutionalization. These mechanisms are described in terms of institutional logics, which are the organizing principles that provide guidelines for actors’ behavior (Friedland and Alford, 1991). Put differently, such logics create “distinctive categories, beliefs, expectations, and motives and thereby constitute the social identity of actors” (Rao et al., 2003).

Institution formation entails the birth of a new logic or governance structure (Scott, 2001). In the Chinese entrepreneurship terrain, for instance, Deng Xiaoping’s famous statement provides a new logic for entrepreneurship: “To be rich is to be glorious” (Nair, 1996). Similarly, entrepreneurs’ entry into the CCP’s inner circle and upper echelons and new laws to protect private property and intellectual property rights (IPR) are changing institutions related to entrepreneurship by providing a new governance structure.

In deinstitutionalization, an existing logic or governance structure is dissolved (Scott, 2001).

Deinstitutionalization is related to delegitimization (Soderbaum, 2000). For instance, the widespread view that only people with criminal records become entrepreneurs has been dissolved in recent years (Nair, 1996).

Finally, reinstitutionalization involves an existing logic or governance structure replaced by a new logic or

governance structure (Scott, 2001). In such a case, an institution “loses ground in relation to competing institutions” (Soderbaum, 2000). To put things in context, the old logic among CCP leaders was that entrepreneurship leads to rising income gap and social unrest, which lead to negative image of the party (Kahn, 2006). In recent years, there is growing recognition among CCP leaders that a richer economy increases respect for the party.

Bush (1983, 1987, 1989, 1994) has proposed two phases of institutional adjustment. Phase I involves ceremonial encapsulation, and Phase II involves regressive or progressive changes. In this article’s context, a progressive institutional change is defined as that phase of institutional adjustment in which ceremonial behaviors that discourage entrepreneurship are replaced by instrumentally warranted standards of judgment encouraging entrepreneurship (Choy, 2005; Bush, 1987, 1989).

3.1. Institutional logic and entrepreneurship in China

In one way, the institutional logic-individual behavior nexus works through a system of incentives, which rewards actors for conformity and penalizes them for violations (Ingram and Clay, 2000; Rao et al., 2003). Such a link can be described in terms of formal institutions.

Another link between institutional logics and actors’ behaviors concerns social identity, or their perception of self-image when they categorize themselves as members of a group (Tajfel and Turner, 1979; Stryker, 2000; Deaux and Martin, 2000). Such a link can be described in terms of informal institutions.

Table 1. Understanding institutional changes influencing entrepreneurship in China.

Institutional Component	Institutions in the Past	Institutions Today
Regulative	Entrepreneurial ventures perceived as potential threats to the CCP regime (Yang, 2002).	Marriage between entrepreneurship and party membership.
	Weak laws related to private property and entrepreneurship, and poor enforcement mechanisms (Yang, 2002).	China has enacted many new laws and enforcement mechanisms are strengthened (Pei, 1998; Meredith, 2003; Hughes, 2005).
Normative	Chinese societies had highly negative perception of entrepreneurs (Harwit, 2002). Entrepreneurs were sensitive to the communist regime and the society, which resist ownership of private property (<i>The Economist</i> 2006).	Entrepreneurs are gaining more respect in the society (Loyalka and Dammon, 2006). Society’s attitude toward business increasingly favoring entrepreneurship, especially related to high technologies (Hsu, 2006; Han and Baumgarte, 2000).
	Entrepreneurs had to fulfill social obligations (Lau et al., 2001).	Social obligations are not expected.
Cognitive	Culture of complacency, conformity and risk aversion (Mourdoukoutas, 2004). VC funds were related to the Chinese government, which cannot accept the Western level of risk taking (Harwit, 2002).	Overseas Chinese with educations and entrepreneurship experience in the industrialized world are more similar to managers from the Western world. Inflow of foreign VC thanks to dense networks of overseas Chinese (UNDP, 2001).
	Entrepreneurship as an occupation was often considered for individuals not able to find other jobs (e.g., those with criminal records) (Nair, 1996).	Attitude towards entrepreneurship is rapidly shifting (Han and Baumgarte, 2000, Nair, 1996).

Table 1 presents some examples of institutional changes influencing entrepreneurship in China in terms of three institutional pillars proposed by Scott (1995, 2001) — regulative, normative and cognitive.

4. Institutional Changes Influencing Entrepreneurship in China

The overarching message conveyed by institutional theory is that the cumulative nature of events consisting of “context, history, institutional embeddedness and transformational agency” (Burns and Nielsen, 2006) determines the nature of institutional changes. We explain such events and changes in terms of Scott’s (1995, 2001) institutional pillars.

4.1. Changes in regulative institutions

Regulative institutions, which obstructed the growth of entrepreneurship in China, are undergoing fundamental and extraordinary shifts. This has been true for attitudes of rule making bodies such as the CCP as well as laws and rules influencing entrepreneurship.

4.1.1. The CCP's orientation towards entrepreneurship

Prior researchers have also noted typical patterns of events and relationships in institutionalization and institutional changes (Lawrence et al., 2001). New values, norms, practices and ideas are first recognized, then accepted by relatively few actors, and then widely diffused (Leblebici et al., 1991; Meyer and Rowan, 1977). Finally, they reach a stage of saturation and complete legitimization (Zucker, 1987). In this regard, it is important to note that the CCP policies and formal legal institutions influencing entrepreneurship have gone through "strict prohibition, tolerance, accommodation and encouragement" (Peng, 2004).

The conservative faction in the CCP considers entrepreneurial ventures as potential threats to the party's dominance, ideology, administrative authority and moral standards (Yang, 2002). Leaders of this faction perceive improved legal institutions as potential challenges for the CCP's legitimacy (Potter, 2004), and have employed rising income gap and social unrest to justify measures against entrepreneurship (Kahn, 2006). Some analysts argue that the delay in granting full rights to entrepreneurs reflects "ideological rigidity and institutional inertia against changes" (Peng, 2004).

Consequently, Chinese legal institutions related to entrepreneurship had been victims of political ideology (Yang, 2002). Following the 1989 Tiananmen events, the conservative faction's actions severely impacted private entrepreneurs. Estimates suggest that the number of private enterprises was reduced by 50 percent that year (Ling, 1998).

As we noted earlier, China has followed a trajectory significantly different from those of Eastern Europe and the Soviet Union. While Russia and Eastern Europe followed Western prescriptions, China has successfully blended nationalism with Marxism (Shlapentokh, 2002). While nationalisms in Western countries are products of "grass-root voluntarism", Chinese nationalism is fostered by the CCP and government elites (Pei, 2003). Promotion of Chinese nationalism is arguably an attempt to fill an "ideological vacuum" left by the weakening socialism (Oksenberg, 1997; Christensen, 1996; Sautman, 2001). The CCP expects that a richer economy might help burnish China's image worldwide and increase respect for it. For that reason, Chinese government encourages entrepreneurship.

Institutional actors bringing regressive changes in Chinese entrepreneurship are likely to weaken over time. Why might this be the case? First, as noted above, although some Chinese policymakers consider China's integration with the global market associated with significant socioeconomic costs, they cannot openly reject global integration (Heer, 2000). To gain legitimacy from international institutions such as the WTO, China is required to respect private entrepreneurship and ownership of private property.

Second, entrepreneurs are being openly accepted into the CCP's inner circle. The CCP's policies and formal legal institutions encourage entrepreneurship (Peng, 2004). The CCP in 2002 changed its bylaws to allow entrepreneurs to become members (Loyalka and Dammon, 2006). In a 2001 speech during celebrations of the party's 80th anniversary, then President Jiang Zemin acknowledged the benefit capitalists bring to the economy (Hoogewerf, 2002). He also handed party membership to a capitalist and founder of one of China's most respected private companies and the first private company to list on a foreign stock exchange (Pomfret, 2001). In another instance, in January 2003, the CCP appointed one of China's wealthiest private entrepreneurs as deputy chairman of an advisory body to the government of Chongqing municipality. He was the first private businessman in China to be awarded such a high position (The Economist, 2003). Although some analysts argue that the seemingly impressive position carried "no real power", optimists argue that these entrepreneurs will give the private sector a more powerful voice in policymaking (The Economist, 2003).

The CCP's legitimacy seeking process (logic) and governance structure are thus changing from the standpoint of entrepreneurship. First, the old logic that entrepreneurial ventures threaten the CCP's dominance, ideology, administrative authority and moral standards (Yang, 2002) is losing ground in relation to competing institutions. The new logic is that a richer economy helps burnish the CCP's image worldwide. There has thus been reinstitutionalization.

Second, as entrepreneurs exert a strong grip to the CCP, one can expect the formation of new institutions through a new governance structure (Scott, 2001). As noted previously, the legitimacy seeking process requires appeasing multiple institutions that are conflicting and inconsistent (Seo and Creed, 2002). For instance, the Chinese government has to take measures to satisfy both the conservative faction in the CCP as well as entrepreneurs. Different theoretical contributions and various empirical studies have led to the accepted view that decision makers are engaged in decoupling in such cases. The exact nature of decoupling is a function of relative powers of competing organizational and institutional interests (Pfeffer, 1981a, 1981b; March and Olsen, 1989; Oliver, 1991, Westphal and Zajac, 1994, 1998, 2001; Zajac and Westphal, 1995). More to the point, the substantive response relates to the threat or opportunity associated with the actor that is perceived to be more powerful and the symbolic response relates to the threat or opportunity associated with actor perceived to be less powerful (George et al., 2006). As entrepreneurs strengthen their positions in the CCP, Chinese policy makers are expected to take substantive measures to appease them.

4.1.2. Strong rules of laws and enforcement mechanisms

Traditionally, regulative institutional such as insecurity of property rights and close state control hindered entrepreneurship (Djankov et al., 1997). Private entrepreneurs lacked legal protection (Yang, 2002). However, the situation is changing. As is the case in a number of other Asian economies, China is "shifting from top-down, state-directed technology policies to more flexible, market-oriented approaches that foster innovation and entrepreneurship" (Segal, 2004) and is adopting policies that actively encourage entrepreneurship (Schramm, 2004).

There are many examples to illustrate such a trend. Sender (2000) documents a story related to state-run China Telecom's complaint against two entrepreneurs offering callback services in Fujian. Their offerings challenged China Telecom's monopoly and high charges. The courts were not convinced the brothers had violated any laws and ruled against China Telecom. To cite another example, Pfizer successfully went against a major Chinese ministry-level government agency to defend its Viagra patent (Boswell and Baker, 2006). From these two examples, we see evidence of deinstitutionalization or diluting control and power of state-owned monopolies and government agencies.

There has been a rapid shift in formal institutions related to entrepreneurship. Following the 1978 reforms, China enacted numerous new laws to protect private property and IP (Pei, 1998; Meredith, 2003); and abolished or amended many laws in these areas to comply with the WTO obligations (Hughes, 2005). The formation of new institutions and governance structure (Scott, 2001) is thus likely to promote entrepreneurship.

Under new laws, buyers of pirated goods can be fined five to ten times the value of the goods and manufacturers face jail time as well as equipment confiscation (Kanellos, 2002). The government has provided a significant empowerment to regulatory agencies involved in IPR issues such as the State Administration of Industry and Commerce, the State Administration of Press and Publications, the intellectual property right office and the State Pharmaceutical Administration (Yang, 2002). Similarly, China announced its plans to open special centers in 50 cities by 2006 to handle IPR infringement complaints as well as to provide consulting services (MacLeod, 2006).

4.1.3. Entrepreneurs bringing institutional changes

Daokui Li et al. (2006) have identified four approaches "institutional entrepreneurs" employ to create market-oriented institutions by breaking regulative barriers: open advocacy, private persuasion, making a case for exceptions, and ex ante investment with ex post justification. First, open advocacy works only if the

government is “tolerant enough for opinions that may criticize existing policies, regulations or laws” and the advocated changes are perceived to be beneficial to the general public (Daokui Li et al., 2006). Second, entrepreneurs may persuade policy makers privately. Third, an entrepreneur may argue that (s)he has a special case that is an exception to the existing laws and regulations. Finally, if a business formed or expanded by breaking existing laws generates jobs, tax revenues and other forms of social benefits, the entrepreneur reports to the government and persuades policy makers to bring changes in exiting laws and regulations.

In addition to entrepreneurs’ roles in bringing changes in existing rules and laws, entrepreneurs may also engage in strengthening enforcement mechanisms (Shuli, 2004). Consider China’s IPR laws. With the increase in local firms’ IP creation, these firms are forcing the government to take substantive measures to strengthen the country’s IP regime. According to the Chinese Supreme Court, in 2005, over 16,000 civil cases and 3,500 criminal cases related to IPR violations were handled by Chinese courts and more than 2,900 people were jailed (Culpan, 2006). The number of cases involving IPR protection including patents, trade secrets and counterfeit goods increased by 21 percent in 2005 (AFX News Limited, 2006). It is also important to note that 95 percent of China’s IPR cases in 2005 were brought by Chinese companies (Culpan, 2006).

The Chinese nanotechnology industry provides another visible example illustrating how local entrepreneurs are taking more aggressive actions in trying to alter the trajectories of institutions related to entrepreneurship. The Nanometer Technology Center established in Beijing is actively involved in protecting IPR (Singer et al., 2005).

4.1.4. Shift from double entrepreneurship to legal entrepreneurship

Institutional boundaries for economic activities are not well defined in China. Some argue that, in China “the law is marginalized and the legal system relegated to a lowly position in a spectrum of meditative mechanisms, while at the same time available for manipulation by powerful sectors within the state and the society at large” (Myers, 1996). Exploitation of the regulative uncertainty and the weak rules of laws has arguably become an important form of entrepreneurship in China (Kolko, 1997).

Yang (2002) refers to this phenomenon as “double entrepreneurship”, which entails maximizing economic rewards and minimizing sociopolitical risks. In China, entrepreneurs find attractive economic niches from outside the current institutional boundaries (Yang, 2002). For instance, entrepreneurs depend on relations with government bureaucrats to obtain a business license (Mourdoukoutas, 2004). At the same time, because of ineffective enforcement of property rights, they have to acquire political and administrative protection or depend on informal norms (Yang, 2002).

In many developing countries, starting a business entails overcoming a significant amount of red tape (Schramm, 2004). In China, one way to overcome bureaucratic red tape has been to be close to the CCP in order to gain advantages and preferential treatment (Guiheux, 2006). A membership in CCP would give an entrepreneur easier access to loans and official protection and discourages the entry of new players (Guiheux, 2006). Entrepreneurs also spend time and energy in forming *guanxi* and cultivating ties with officials (Yang, 2002). In sum, where entrepreneurship in the West is about identifying profitable opportunities, in China, “the ability to form an alliance” with those who control financial, physical or human resources is critical for success (Krug, 2004).

Institutional environment shapes entrepreneurs’ motivation to enter politics (Li et al., 2006). Therefore, improvement in market-supporting institutions or transformation of a socialist economy into a market economy can be an important force in converting double entrepreneurship into legal entrepreneurship (Yang, 2002). In recent years, Chinese regulative landscape has undergone significant improvement in rule setting and monitoring activities. Consequently, the institutional actors’ values are entrepreneurship friendly and “progressive” (Bush, 1987).

4.2. Changes in normative institutions

4.2.1. Societal perception of entrepreneurs

The perception of entrepreneurship in China was drastically different from that in market economies (Mourdoukoutas, 2004). Mao arguably developed a fierce critique of capitalism, private property, income and wealth inequality and material interest (Guiheux, 2006). During the Mao era, private entrepreneurship was virtually non-existent and was a political and social taboo (Loyalka and Dammon, 2006; Peng, 2004). Entrepreneurship was “shunned” even in the 1980s (Wehrfritz and Seno, 2003). Thanks to mindsets that were reminiscent of the Chinese Communist Public Goods Regime (Solinger, 1995), Chinese societies, as late as the 1990s, had highly negative perception of those trying to build their own company (Harwit, 2002).

Faced with such societal perceptions, some Chinese entrepreneurs are still sensitive to the society and the communist party that resist ideas related to the ownership of private property (The Economist, 2006). Accumulating a huge amount of wealth is still a “delicate subject” (Hoogewerf, 2002) and some still consider entrepreneurs as “selfish, avaricious peddlers”, or “getihu” (Hsu, 2006).

That is not to say that the institutional environment has not changed. Indeed, attitude toward businesses and private entrepreneurship is becoming more positive (Han and Baumgarte, 2000; Nair, 1996). Chinese leaders have also provided societal validity to entrepreneurship. As noted above, Deng Xiaoping said: “To be rich is to be glorious” (Nair, 1996). Consequently, with this new institutional logic (Scott, 2001), entrepreneurs are gaining more respect in the society (Loyalka and Dammon, 2006).

4.2.2. Societal expectation from entrepreneurs

Under the “market track” of the Chinese “dual-track approach,” economic agents were allowed to participate in the market provided they fulfilled social obligations (Lau et al., 2001). Some still consider entrepreneurs as members of the working class striving for China’s development (Mourdoukoutas, 2004). In an ethnographic study, Hsu (2006) found some entrepreneurs in China were understood as “cadres” and were judged by their ability to provide socialist benefits.

Transition from state to private ownership and a market economy can lead to changes in cultural characteristics (Veblen, 1915). There is evidence of such a trend in China. From the social standpoint, the road to entrepreneurship is beginning to look a little smother. Especially educated entrepreneurs running high-tech businesses are seen as highly respected good business people (Hsu, 2006). There is thus the deinstitutionalization of the logic (Scott, 2001) that entrepreneurs need to fulfill social obligations.

4.3. Changes in cognitive institutions

4.3.1. Chinese culture and entrepreneurship

While some argue that Chinese culture is entrepreneurship friendly (Waldinger et al., 1990), others suggest that Chinese tend to lack the characteristics needed to be successful entrepreneurs such as independent thinking (Friedman, 2005), risk taking, innovativeness and self-determination (Holt, 1997; Anderson et al., 2003). It is also suggested that entrepreneurship as discovery and exploitation of market opportunities are incompatible with China’s culture of complacency, conformity and adherence to standard rules and procedures (Mourdoukoutas, 2004).

It would be erroneous, however, to assume the existence of a generic Chinese culture. There is a major difference between the social organization and the risk taking behavior of Chinese staying in China and overseas Chinese (Moore, 1997).

A progressive institutional change is a function of the existence of knowledge and the ability to understand an adaptation (Bush, 1987; Minsky, 1996, Minsky, 1957). Overseas Chinese with educations and entrepreneurship experience in the industrialized world are likely to possess the required knowledge and ability to make adaptation in the Chinese context. Prior research has found that “social remittances” associated with immigrants (e.g., ideas, behaviors and identities) play critical roles in promoting entrepreneurship (Levitt, 1998).

Overseas Chinese returnees^b are influencing institutions related to the Chinese entrepreneurship landscape through a number of mechanisms. Overseas Chinese in Asia, for instance, have developed complex and dense social organizations and institutions (Wu and Wu, 1980; Moore, 1997). In recent years, overseas Chinese returnees have started developing similar institutions in the mainland. Wang (2001) documented the evolution of a “club culture” in China, which has promoted innovation and risk taking and stimulated interaction among various ingredients of entrepreneurship. Such a culture is especially evident in industrial and high-tech parks of the country (Loyalka and Dammon, 2006). Other studies have found that overseas Chinese have contributed in producing synergies and in “thickening” existing institutions (Amin and Thrift, 1995; Keeble et al., 1999). The upshot of the new governance structure (Scott, 2001) is a rapid development of entrepreneurial culture.

In a discussion of Chinese culture and entrepreneurship, the nature of venture capitalism (VC) deserves special attention. In China, most VC funds are linked to the government and can be considered as a loan (Harwit, 2002). Enterprises that are able to obtain VC funds feel an obligation not to lose the resources. Moreover, an incubator losing the government-owned money also becomes a target of official criticism (Harwit, 2002). Therefore, Chinese government VC funds cannot accept the Western level of risk taking (Harwit, 2002). On a more speculative basis, we can argue that Chinese returnees may also change other components of Chinese institutions such as the Chinese VC landscape, which currently discourages risk taking. Second, the Chinese venture capital landscape is also changing rapidly. China represents one of the fastest growing markets for venture capital investing in the world. In 2005, VC investment in China amounted to \$1.17 billion compared to \$325 million in 2002 (Balfour, 2006) and \$88 million in 1999 (UNDP, 2001). The rapid increase can be attributed to dense networks of overseas Chinese. Estimates suggest that overseas Chinese control assets worth trillions of dollars. Successful entrepreneurial spin-offs from Chinese returnees may promote risk taking behavior among Chinese.

4.3.2. Cognitive assessment of entrepreneurship as an occupation

While lifelong working for big enterprises is ideal for Japanese (Muller et al., 2004), employment in big state-owned factories used to be the most desired career for Chinese. People who spent most of their life in such careers may dislike entrepreneurship (Loyalka and Dammon, 2006).^c

Transition from state to private ownership and a market economy can lead to changes in economic motives and behavioral characteristics (Karayiannis and Young, 2003; Veblen, 1915). Traditionally entrepreneurship was not the most desired one for China’s best and brightest and was considered for people with criminal records who found it difficult to find other jobs (Nair, 1996). The situation is changing. A recent survey conducted among Chinese found that 70 percent of the respondents thought entrepreneurship was a good career choice and 32 percent expected to start a business in the next three years (Gangemi, 2007). Therefore, Nee (1989) was correct to point out that the emergence of a market economy would alter the structure of opportunities and give rise to entrepreneurship as an alternative avenue for social mobility.

5. Discussion and Implications

We employed institutional theory to provide a clearer picture of the changing pattern of Chinese entrepreneurship. A constellation of factors linked to China’s global integration is pushing through fundamental changes in institutions related to Chinese entrepreneurship.

Our analysis and the findings reported here fill important gaps in the literature. Earlier in this article, we identified four gaps in entrepreneurship research. With respect to the first gap, this study provided insights into various mechanisms associated with the impacts of formal and informal institutions on entrepreneurship. Moreover, our account also captures how entrepreneurs shape formal institutions (e.g., by pressuring the government to enact and enforce laws) and informal institutions (e.g., the formation of a “club culture” and promotion of risk taking behavior).

Second, this study deepened our understanding of the emergence of social organizations related to entrepreneurship in China. The overseas Chinese especially have been at the forefront of important initiatives

needed in the formation of social organizations promoting entrepreneurship.

Third, as to the government's role in shaping the Chinese entrepreneurship landscape, it is important to note that the government can do little to bring changes in informal institutions. Although formal institutions such as rules and laws are changing rapidly, some institutional actors such as decision makers in state-owned banks and other agencies, local cadres, tax officers and government officials (The Economist, 2002; Yang, 2002) seem to be trapped in the socialist mindset.

Finally, this paper examined how China's transition to market economy has influenced entrepreneurship. China's successful blend of nationalism and Marxism (Shlapentokh, 2002) has provided impetus to entrepreneurship and investment. Most CCP leaders have realized that entrepreneurs' contribution to the ambitious economic agenda outweigh the costs related to the challenges to the CCP's legitimacy. For this reason, they are wholeheartedly promoting and facilitating entrepreneurial thinking and practices.

From the above discussion, we can draw a number of implications.

5.1. Implication 1: Change in profiles of entrepreneurs

Institutional changes discussed above are likely to lead to alter the profiles of successful entrepreneurs. In the Chinese entrepreneurship landscape, there are a few commonly accepted rules and norms to govern relationships (Nee, 1992). This results in greater institutional and social uncertainties where personal relationships are important resources (Xin and Pearce, 1996). The "institutional entrepreneurs", who depend on government officials for their success, face risks in a market economy (Daokui Li et al., 2006). Strengthened rule of law and a higher level of regulative certainty are likely to encourage legal entrepreneurship instead of double entrepreneurship.

5.2. Implication 2: Western influence on Chinese entrepreneurship patterns

We discussed a number of mechanisms associated with Western influence on Chinese entrepreneurship culture. For instance, the arrival of an increasing number of overseas Chinese, some with significant entrepreneurial experience, is set to transform the Chinese entrepreneurship landscape. These returnees are likely to be more similar to Western entrepreneurs in terms of habits of thought and behaviors related to entrepreneurship. Successful entrepreneurial spin-offs from Chinese returnees may further promote risk taking behavior among Chinese. Likewise, inflow of VC from the Western world is rapidly growing in China. Recall that Western VC differs drastically from most domestic VC funds that are linked to the government. With China's growing global integration, further influence of Western entrepreneurship culture can be observed.

5.3. Implication 3: Focus on the weakest link

Bush (1987) argues that "the diffusion of the new instrumental values throughout the community erod[ing] the ideological foundations of those ceremonial practices that are dominant in the affected areas of activity" is necessary to accomplish progressive institutional changes. North (1990) noted that "although formal rules may change overnight as the result of political and judicial decisions, informal constraints embodied in customs, traditions, and codes of conduct are much more impervious to deliberate policies." In China's case, the adoption rate of instrumental values promoting entrepreneurship has been very slow among some critical institutional actors such as incubators (Harwit, 2002), state-owned banks, local cadres, tax officers and government officials (The Economist, 2002; Yang, 2002). After decades of socialism, the idea of respecting constitutional rights of entrepreneurs has been slow to diffuse among some institutional actors (Nee, 1989). Chinese incubators, for instance, lack proper cognitive mindsets in assisting entrepreneurs (Harwit, 2002). Private enterprises often complain about difficulties in dealing with state-owned banks and other agencies as well as harassment and extortion by local cadres, tax officers and government officials (The Economist, 2002; Yang, 2002). These actors have thus been the weakest link in China's entrepreneurship landscape. Measures are needed to accelerate the diffusion of entrepreneurship related progressive changes among these actors.

Notes:

^aIt is argued that the Chinese Communist Party (CCP) maintained political dominance thanks mainly to entrepreneurs who were highly innovative in carrying out state plans to build industries and launch new enterprises (Yang, 2002). “Re-emergence” of private entrepreneurship (Guiheux, 2006) in the country, however, is a recent phenomenon.

^bIn 2002 alone, over 18,000 Chinese who graduated from foreign universities returned to China. This figure was 47 percent more than in 2001, double that in 2000, and over three times the figure for 1995 (Lynch, 2003). Estimates suggest that as of 2005, 200,000 Chinese returned to the country after working or studying abroad (Loyalka and Dammon, 2006).

^cFor instance, thanks to “elite cultivation” in China’s IT education, over half of IT graduates pursue senior technological or managerial positions after a couple of years of work rather than pursuing entrepreneurial ventures (Kharbanda and Suman, 2002).

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