



Social entrepreneurship in a transitional economy

A critical assessment of rural Chinese entrepreneurial firms

Patrick S. Poon, Lianxi Zhou and Tsang-Sing Chan

*Department of Marketing and International Business, Lingnan University,
Hong Kong, People's Republic of China*

Abstract

Purpose – This paper aims to examine the institutional and social determinants, and consequences of social entrepreneurship with respect to China's rural enterprises. It also attempts to provide a conceptual framework concerning how rural Chinese enterprises act as social entrepreneurial institutions and contribute to both business development and social welfare of local communities.

Design/methodology/approach – The conceptual framework is developed through a critical review of literature and an integration of multiple disciplinary studies, with a focus on the perspectives of institutional governance, managerial networks, and market orientation.

Findings – The study identifies three framework layers for the development of China's rural enterprises, which are fundamentally driven by market preserving authoritarianism, local state corporatism, community culture, social entrepreneurship and market orientation.

Practical implications – The proposed framework can help contribute to the theoretical development of strategic issues of social entrepreneurship in transitional economies. It may also provide insights about local state governance, ownership structures and market competition in China.

Originality/value – As China's rural enterprises are widely regarded as a phenomenon related to the core nature of a "socialist market economy", an ideology embraced since the beginning of Chinese social-economic reforms, a study of institutional and entrepreneurial nature of this kind serves as a stepping stone for understanding the emerging phenomenon of the country's social entrepreneurship, which is characterized by open market mechanisms and socialist legacies.

Keywords Entrepreneurialism, Rural economies, Social economics, China

Paper type Conceptual paper

Introduction

The appearance of China's rural entrepreneurial firms from non-state sectors has been a recent phenomenon since the economic reform in 1978. The rapid growth of these private sectors has challenged the status quo of central planning and served as the engine that has been pushing China's continuous economic growth and reform. Today, it has been widely recognized that rural Chinese entrepreneurial firms represent the most dynamic force in the Chinese economy, and exemplify the fundamental nature of China's socialist market economy. China's rural enterprises are not state-owned but are subordinate to local township or village governments. They demonstrate various ownership structures, including collectively-owned township and village enterprises (TVEs), privately-owned businesses, joint-stock cooperatives (between local government and individuals), and even international joint ventures (Bruton *et al.*, 2000). Although a series of radical and successful reforms of the ownership and



governance structure of the TVEs have been initiated since 1992 (i.e. embarked in the process of privatization and joint-stock cooperatives), TVEs still remain and as a result, three distinct business groups (i.e. TVEs, private enterprises, and joint-stock cooperatives) have dominated the landscape of China's rural industries. Together, these emerging business groups have produced about one third of China's GDP since 1996 and employed over 130 million rural workers (State Bureau of Information, 2002). As shown in the statistics of Table I and Table II, there were about 27.5 thousand state-owned enterprises (SOEs) with 18.75 million employees in China during 2005. In the same year, their total operating revenue was up to 8,557 billion Yuan (or renminbi, RMB). However, a significant drop in the number of SOEs is found over the past few years. On the other hand, there were about 123.8 thousand private Chinese enterprises (PCEs) in 2005 with 16.92 million employees, and a total operating revenue of 4,580 billion Yuan. In contrast to SOEs, a significant growth of PCEs is found. The number of PCEs in 2005 is about 3.4 times of the number in 2001.

In 2005, there were about 22.5 million TVEs with 142.72 million employees, and a total operating revenue was about 21,520 billion Yuan. The growth of TVEs still exists, but in a very small extent. The findings are indeed parallel to the policy of Chinese central government for state-owned enterprises. In 1997, the Fifteenth Congress of the Communist Party set forth guidelines for the further privatization of state-owned enterprises. Furthermore, in 1998, the Ninth National People's Congress decided to streamline the State Council and local government bureaucracies by abolishing most industry-specific planning agencies and consolidating the regulatory agents. The policies have led to the speeding up of privatization, followed by a significant decrease in the number of SOEs and a great increase in the number of PCEs in the past few years (Li and Lian, 1999).

Of particular interest, is how China's rural enterprises have enjoyed such rapid growth and outstanding performance. Economists view the phenomenon as institutionally determined, suggesting that local community government plays an important role in preserving markets, providing firms with necessary resources and protection from outside forces, and directing and coordinating enterprise activities (Li and Lian, 1999; Nee, 1992; Oi, 1992). This has been known as "local state corporatism" (Oi, 1992; Walder, 1995) or "local market socialism" (Lin, 1995). In contrast, scholars in management science emphasize the importance of managing networks of interpersonal relationships (or *guanxi* in Chinese terminology) with managers in other firms and with government officials, combined with entrepreneurial orientations toward market opportunities (Batra, 1997; Peng and Heath, 1996; Peng and Luo, 2000; Xin and Pearce, 1996). Still, other scholars adopt a marketing perspective and see the success of China's rural enterprises as mostly driven by the market orientation of business managers formed in response to the rapidly changing competitive environment (Deng and Dart, 1999; Luo, 1999; Zhou, 2000).

As China's market has become increasingly competitive and sophisticated in its post-reform era, an interesting question arises: How do local state corporatism, managerial networks, and market-oriented behaviors relate to business performance in China's rural enterprises? The recent development seems to suggest that the influence of local community governments on the performance of rural enterprises in China has substantially diminished, particularly in the face of the privatization process embarked by the TVEs. Similarly, there seems to be a growing trend among rural Chinese

Table I.
Descriptive statistics of
state-owned enterprises
(SOEs), and town and
village enterprises
(TVEs) in China:
2001-2005

Item	2001	2002	2003	2004	2005
<i>State-owned enterprises (SOEs)</i>					
<i>General information</i>					
Number of enterprises (unit)	46,767	41,125	34,280	35,597	27,477
Number of employees (million)	26.75	24.24	21.63	19.73	18.75
Gross output (billion Yuan)	4,240.85	4,517.90	5,340.79	7,022.90	8,374.99
Net value of fixed assets (billion Yuan)	3,863.82	3,972.83	4,211.84	4,628.33	4,914.02
Net value of circulating funds (billion Yuan)	3,257.59	3,262.56	3,432.80	3,755.76	4,070.56
<i>Performance</i>					
Total operating revenue (billion Yuan)	4,444.35	4,784.42	5,802.72	7,143.00	8,557.42
Total net profits (billion Yuan)	238.86	263.29	383.62	545.31	651.98
Taxes paid (billion Yuan)	125.02	140.18	158.99	192.19	212.17
Total pre-tax profits (billion Yuan)	363.88	403.47	542.61	737.5	864.15
<i>Town and village enterprises (TVEs)</i>					
<i>General information</i>					
Number of enterprises (units)	21,155,389	21,326,857	21,850,797	22,132,161	22,495,902
Number of employees (million)	130.86	132.88	135.73	138.66	142.72
Gross output (billion Yuan)	12,604.69	14,043.45	15,236.07	17,251.67	21,781.86
Net value of fixed assets (billion Yuan)	N/A	2,691.23	3,126.32	3,681.39	5,024.61
Net value of circulating funds (billion Yuan)	2,611.00	2,964.50	3,475.75	3,958.07	3,970.85
<i>Performance</i>					
Total operating revenue (billion Yuan)	11,658.55	12,975.96	14,678.34	16,636.85	21,520.44
Total net profits (billion Yuan)	670.95	755.78	857.12	993.22	1,069.45
Taxes paid (billion Yuan)	230.81	269.35	313.01	365.83	518.09
Total pre-tax profits (billion Yuan)	901.76	1,021.13	1,170.13	1,359.05	1,587.54

Sources: State Bureau of Information (2002-2006); China Statistical Press (2004)

Item	2001	2002	2003	2004	2005
<i>Private Chinese enterprises (PCEs)</i>					
<i>General information</i>					
Number of enterprises (unit)	36,218	49,176	67,607	119,357	123,820
Number of employees (million)	5.42	7.33	10.28	15.15	16.92
Gross output (billion Yuan)	876.09	1,295.09	2,098.02	3,514.13	4,777.82
Net value of fixed assets (billion Yuan)	203.94	290.92	456.51	746.78	958.69
Net value of circulating funds (billion Yuan)	299.29	443.71	727.60	1,197.82	1,548.50
<i>Performance</i>					
Total operating revenue (billion Yuan)	798.24	1,197.16	1,973.38	3,348.73	4,580.14
Total net profits (billion Yuan)	31.26	49.02	85.96	142.97	212.07
Taxes paid (billion Yuan)	6.85	9.57	14.61	25.71	35.22
Total pre-tax profits (billion Yuan)	38.11	58.59	100.57	168.68	247.29

Table II.
Descriptive statistics of
private Chinese
enterprises (PCEs) in
China: 2001-2005

Sources: State Bureau of Information (2002-2006); China Statistical Press (2004)

enterprises managers to shift away from an emphasis on managing networks of interpersonal relationships and toward the adoption of competitive market behaviors. However, none of these issues have been vigorously examined either empirically or theoretically.

In this paper, we attempt to provide a conceptual framework concerning how rural Chinese enterprises act as social entrepreneurial institutions and contribute to both business development and social welfare of local communities. The framework integrates institutional, social and entrepreneurial dimensions, and brings to the surface the connection between market preserving authoritarianism and entrepreneurial market behavior. We believe that this framework can help contribute to the theoretical development of strategic issues of social entrepreneurship in transitional economies. China's rural enterprises are widely regarded as a phenomenon related to the core nature of a "socialist market economy", an ideology embraced since the beginning of Chinese social-economic reforms. A study of institutional and entrepreneurial nature of this kind serves as a stepping-stone for understanding the emerging phenomenon of the country's social entrepreneurship, which is characterized by open market mechanisms and socialist legacies.

Literature review

Research on entrepreneurship in transition economies has been increasing in recent years. A distinctive feature of entrepreneurship in transition economies is that its determinants and route to success are largely shaped by socially and institutionally regulated environment (Kodithuwakku and Rosa, 2002; Peng and Shekshnia, 2001). Formal institutional constraints (such as state control mechanisms, government agencies, and market infrastructure of professional and regulatory authorities) have been recognized as inhibiting forces for reformed state-owned enterprises (SOEs) and non-SOEs (e.g. private enterprises) alike to seek growth opportunities through market-driven entrepreneurship. Instead, social entrepreneurship seems to have the potential to compensate these countries' underdeveloped institutional structures (Peng, 2001).

Social entrepreneurship is a complex concept, and its definition and conceptual domain remain elusive. Part of the reason is that the phenomenon has been studied

from a variety of perspectives such as economics, sociology, and strategic management (Jack and Anderson, 2002; McDougall and Oviatt, 2000). In general, social entrepreneurship is conceptualized as an expression of entrepreneurially behaviour to achieve social mission and to benefit the community or society (Mort *et al.*, 2003). According to Thompson (2002), social entrepreneurs can be found in three sectors:

- (1) profit-seeking businesses that have some commitment in helping the community;
- (2) social enterprises which are set up with a largely social purpose; and
- (3) the voluntary sectors or non-governmental organizations (NGOs).

The focus of social entrepreneurship always leans towards the social commitments conducted by the NGOs and some large business organizations such as Citigroup. However, literature in strategic management and entrepreneurship literature suggests that the conceptual domain of entrepreneurship may involve market-driven entrepreneurial management processes (Matsuno *et al.*, 2002). An organizational predisposition to entrepreneurial management processes is manifested through three underlying dimensions: innovativeness, risk taking, and proactiveness (e.g. Covin and Slevin, 1989). Social entrepreneurship involves social and institutional embeddedness in regard to market-oriented entrepreneurial behavior. While entrepreneurship takes place through a firm's commitment to market orientation and bringing together unique organizational-specific resources to exploit marketplace opportunities, social entrepreneurship emphasizes the role of social and institutional determinants in shaping and sustaining the entrepreneurial process.

Relevant to the situation in China, researchers have noted that the old institutional systems still exercise major influences on the country's economic activities (Child and Tse, 2001). The emerging of rural Chinese entrepreneurial firms has been based on the wellbeing of the community (towns or villages). The profits generated from the firms benefit the local citizens, local government and local economy as well. Accordingly, the rural entrepreneurial firms may indeed be considered as a kind of social entrepreneurs. Our research attempts to argue that market barriers imposed by formal institutional constraints that are known to twist China's market have been successfully handled through exercising social entrepreneurial actions. Using the case of rural Chinese enterprises, we provide support for our argument and conclude that the need for social entrepreneurship is an effective adaptation and response to market preserving authoritarianism in a transition economy.

China's rural enterprises

By definition, rural enterprises in China are those that are created by farmers individually or collectively. They are normally engaged in non-agricultural industries, especially manufacturing. Over the past two decades Chinese rural enterprises have generated a wide range of industrial products, consumer goods, and services in nation-wide markets. The development of rural enterprise in China was neither planned nor anticipated by the central government (Byrd and Lin, 1989). Rather, they evolved initially from the government's increasing tolerance of non-state enterprises in the 1970s, and received official recognition and encouragement in the 1980s when it was realized that the rural enterprises were important vehicles for promoting the rural economy, and more importantly, for absorbing a large amount of surplus rural labor without much state financial support (Jin and Qian, 1998).

Rural enterprises are characterized by their nativeness, collectiveness, and localness. Nativeness refers to the enterprises' tight connections with local farmers in terms of kinship, social ties and geographical relations. Collectiveness means that the rural enterprises, especially the TVEs, are brought into the collective autonomy of townships or villages in which local state authorities are responsible for arranging the economic and social affairs of communities' daily lives. Localness refers to the fact that the rural enterprises are rooted in local social and cultural fabric (Jefferson and Rawski, 1994; Xiaohe *et al.*, 1994).

Developing outside of China's planned market economy, rural enterprises do not operate under the planned regime, and therefore must strive to be entrepreneurial and market oriented rather than following the pattern of state-owned firms (Deng and Dart, 1999). They serve as a means by which to observe and understand the market-enhancing mechanisms of social entrepreneurship at work in China (Li and Lian, 1999).

Research on China's rural enterprises has examined the organizational effectiveness of various ownership structures, including TVEs and private businesses and their comparisons with SOEs (Jin and Qian, 1998; Perkins, 1996; Perotti *et al.*, 1999; Weitzman and Xu, 1994; Zhang, 2000); the institutional aspects and developmental role played by local community government (Nee, 1992; Oi, 1992; Walder, 1995); the kinship-based collective culture of China (Huang, 1998); networks of interpersonal relationships and rural entrepreneurship (Peng, 2001; Peng and Heath, 1996; Peng and Luo, 2000); and market orientation and competitive behavior (Deng and Dart, 1999; Luo, 1999; Zhou, 2000). Broadly, these individual studies have addressed three factors that potentially explain the phenomenon of rural enterprises: institutional governance, managerial networks, and market orientation.

The institutional perspective characterizes local community governments as industrial firms in which the local governments own and operate the business. In this light, the superior performance of rural enterprises is primarily linked to corporate governance by township or village government in terms of preserving the market, bearing political and financial risks, and careful monitoring of enterprise managers. These institutional arrangements are believed to encourage the entrepreneurship of managers who take advantage of new market opportunities to maximize personal income and community revenue. A general observation of such "local state corporatism" is that the centrally planned system has been decentralized into lower administrative levels of the state, and local governments are provided with incentives to pursue market-oriented business activities (Walder, 1995). Moreover, Murphy (2000) denotes that returning migrants from industrial urban areas back to their rural areas have also facilitated entrepreneurship and rural enterprises. Most of the migrants come from poor rural areas of the interior provinces with weak industrial bases. However, although the returning migrants create their own businesses or enterprises, they may be enlisted by the local state to contribute to the rescue of the poorly operated government enterprises. The returnees use their urban experiences and resources to engage with the local state or government in promoting the changes in local policies, infrastructure, and making the natal communities more suitable and attractive to businesses.

The managerial perspective focuses on the impact of managerial ties or social networks on firm performance. The literature suggests that policy instability and the

lack of market-supporting infrastructures such as transparent laws and regulations in transitional economies impede firms from ensuring efficient market transactions. As a result, the cultivation of a strong and stable network of relationships with managers at other firms and with government officials is encouraged. According to this perspective, managerial ties encouraged by interpersonal or inter-organizational relations can facilitate important marketing functions necessary for managers to perform, including obtaining market information, interpreting regulations, and enforcing contracts. Although this network-based managerial approach has also been observed in Western countries, Chinese managers are believed to rely more heavily on the cultivation of managerial ties to cope with environmental uncertainty (Child, 1994; Peng and Luo, 2000). In fact, cultivating interpersonal connections (or *guanxi*), and building on personal trust and informal agreements are social and cultural norms in Chinese society, and these practices are considerably more widespread in the country's rural communities. While this perspective offers insights into the ways in which managerial and informal social networks can enhance business activities, relatively little is known about their connection to a firm's competitive market behaviors.

The market discipline perspective concentrates on how market competition aligns with market orientation and competitive behaviors. Research indicates that Chinese rural enterprises, developing outside of China's planned market economy, must strive to be market oriented rather than following the pattern of state-owned firms (Deng and Dart, 1999). The nature of market orientation (i.e. either competitor-focused or customer-focused) is shown to be a reflection of organizational needs catalyzed by the changing environment, which in turn impact on competitive strategies and the business performance of those rural enterprises (Luo, 1999). In contrast to the institutional and managerial perspectives, the market discipline perspective posits that it is environmentally determined market orientation and strategic choices that enable the rural enterprises to become more competitive in the marketplace. Although there are some substantive differences in terms of the nature of market orientation in China, the general pattern of how market orientation and competitive behaviors drive business performance is similar to what has been established for firms in the Western countries. However, the question remains whether market orientation and competitive behaviors are key determinants of the success among China's rural enterprises.

An integrative framework of China's social entrepreneurship

The three perspectives highlighted above are neither mutually exclusive nor substitutes. They are in fact complimentary to each other. They provide opportunities to understand the phenomenon from different disciplinary angles. This research aims to provide an integrative framework that encompasses the institutional, managerial, and market discipline perspectives in relation to social and business development in rural China. The integration provides greater insights into the role of social and institutional aspects in shaping the nature of market-oriented entrepreneurial behavior. The framework presented in Figure 1 may provide a new perspective in the study of social entrepreneurship and rural enterprises in a transition economy like China. The fundamental initiatives of entrepreneurship in rural areas are to help the well-being of the community and the local citizens, particularly with the support and involvement of the local state government.

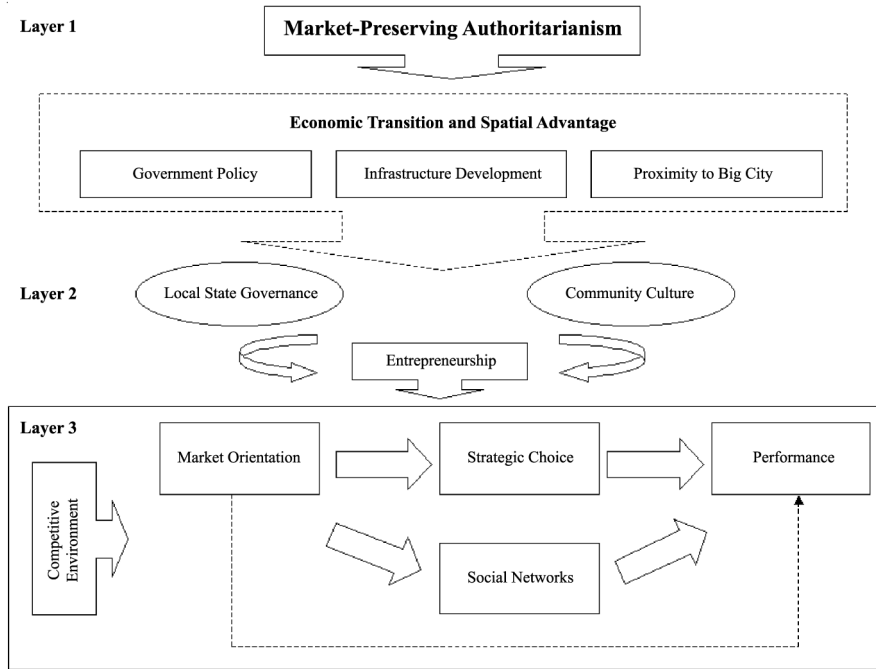


Figure 1. A proposed framework of social entrepreneurship in China's rural enterprises

As shown in Figure 1, there are three framework layers for the development of rural enterprises in China since the economic reform in the late 1970s. Layer 1 outlines the institutional, economic and spatial environment within which China's rural enterprises have undergone rapid development over the past two decades. The study of Li and Lian (1999), which aimed to explain how China was able to achieve a double-digit annual growth during the late 1970s and late 1990s, emphasized the importance of adoption of market-preserving authoritarianism on the success of economic growth. In order to preserve the market for catching-up and authoritarianism, the senior leaders of Chinese central government made policies and found a balance among economic decentralization, autonomy, political control and coordination. Furthermore, as mentioned by Buckley *et al.* (2005), the Chinese government, which exerted absolute control over SOEs under the old central planning system, has consistently urged for organizational restructuring and institutional reform of SOEs. The urge for reform was mainly due to the fact that SOEs accounted for two thirds of the China's industrial capital but only 25 percent of its gross industrial production. The problem was linked to high agency costs and production requirements for government functions. Many subsidiary managers of multi-national firms were frustrated with SOEs because of a lack of job commitment and a culture based on dependency and lack of responsiveness. On the other hand, private corporations were considered to be better in terms of quality, delivery, customer responsiveness and partner relationship (Wilkinson *et al.*, 2006). As denoted by Child (1994), the reform of Chinese SOEs has been an integral part of the economic reform program of the Chinese government since 1985. The objective was to reduce SOE dependence on government, and to increase their responsiveness to

market forces through various incentives and policies (Groves *et al.*, 1994; MacMurray and Woetzel, 1994).

Layer 2 highlights the effects of local state corporatism and collective community culture on entrepreneurship. These effects reflect the institutional impact on entrepreneurial market behavior. The reform of Chinese SOEs and governmental policies of decentralization and coordination have facilitated entrepreneurship and local state corporatism in rural China, particularly with the strong support of returning migrants with industrial experiences obtained in the urban cities (Li and Lian, 1999; Murphy, 2000). A great number of TVEs have been established since the late 1980s, followed by various forms of private enterprises and joint corporations (Luo *et al.*, 1998; Wang, 2005). As highlighted by Murphy (2000), the returnee entrepreneurs generally would have higher levels of educational attainment than the local citizens or villagers and basically they would seek for the benefits of their family, relatives, friends and other members in the local community. These motivation and initiatives bring out the emergence of the concept of social entrepreneurship, especially with the support of the local state government, which aims to improve the economy and well-being of the local community or rural areas.

Layer 3 describes the process of market-oriented behavior and organizational performance as demonstrated in the Western countries, but coupled with a social network-based managerial component. The inclusion of this component into the market behavior model goes well beyond what has been assumed in the managerial perspective. We conceptualize that social entrepreneurship involves the mechanisms through which market oriented behaviors and social networks interactively impact on organizational performance, and such mechanisms are embedded within the institutional environment of market-preserving authoritarianism. Certainly, beside non-profits or NGOs, a number of multinational corporations and business schools such as Citigroup and Columbia Business School have started to create and facilitate the forming of social purpose enterprises. For Chinese rural enterprises, the mission definitely cannot be non-profit based, but it would aim to benefit the local community by operating in a competitive business environment, with the use of contemporary management practices and know-hows.

Market preserving authoritarianism

After further openness policies and ownership reforms were institutionalized throughout the 1990s, China's transition economy was stimulated to a new level. One significant outcome of China's economic reform is the gradually strengthened market competition and improved market-enhancing institutions (Child and Tse, 2001). In particular, China's rural enterprises operate in a unique social and institutional environment. The market preserving authoritarianism, coupled with local state corporatism and community culture, has been suggested to result in competitive advantages for rural enterprises in China (Li and Lian, 1999; Nee, 1992; Oi, 1992; Walder, 1995). The notion of "market preserving authoritarianism" introduced by Li and Lian (1999) describes institutional embeddedness of decentralization and control within China's transitional economy. Basically, the authors argue that China is at a stage of market preserving authoritarianism, which is characterized by economic decentralization and autonomy on the one hand whilst political control and coordination on the other hand. They demonstrate that the government policies of

decentralization and coordination have largely preserved the market structures and mechanisms for economic catching-up since the commencement of China's economic reform. Furthermore, decentralization promotes competitive market behaviors of local governments and rural Chinese enterprises, whereas coordination is needed to mobilize the necessary resources and to provide the desirable institutions to supplement incomplete market and legal systems.

The regime of market preserving authoritarianism in China encouraged the emergence of rural Chinese enterprises, especially TVEs. In fact, the local community governments such as township and village governments have been very enthusiastic in the development of TVEs due to various motivations such as revenue generation, employment creation, improvement in standard of living and wealth of community (Li and Lian, 1999). This enthusiasm has been further strengthened by an increasing responsibility for the improvement of local education, infrastructure and social welfare. This has been gradually shifted from the upper levels of government to the authorities at the community level. This led to the phenomenon of local state corporatism.

Local state corporatism

The "local state corporatism" concept proposed by Oi (1992) and others (Nee, 1992; Walder, 1995) represents a rigorous understanding of the institution-based governance and control of rural enterprises in China. Local state corporatism refers to community and institutional involvement by the township and village in coordinating and directing business activities. Local governments are described as playing the role of "corporate manager" or "board of directors" in the rural enterprises, particularly for the TVEs, which function as government agents and not as independent economic firms. According to the literature, the local state coordination and intervention make up for weak market structures, poorly specified property rights and the institutional uncertainty that characterizes transitional economies.

Local state corporatism contributes to social entrepreneurship of rural Chinese enterprises for several reasons. First, it would be because local community governments are part of a large authoritative system with broad powers in China. The support of them can provide local enterprises and other stakeholders with a sense of security, which is needed to avoid bureaucratic burden and achieve economic efficiency. Second, local institutions with the authority can play an essential role in gaining access outside resources, particularly bank loans. And third, they encourage risk-taking entrepreneurial behaviors among the rural enterprise managers. As such, they can offer managerial inputs and ensure the market efficiency within their jurisdiction. It can be concluded that local state corporatism facilitates social entrepreneurship by reducing social and economic costs and creating suitable market-oriented entrepreneurial activities.

Community culture

Rural Chinese enterprises are deeply rooted in local communities, where community culture is typically bonded with a combination of a collective orientation with a strong entrepreneurial spirit. Research has shown that in transition economies, virtually every firm needs to rely on its social networks, which are necessitated by the institutional environment (Peng, 2001). In China, the impact of social network linkages on firm performance has been well documented (Park and Luo, 2001). However, it has also been noted that possessing efficient personal networks may be necessary but not sufficient

for superior firm performance (Peng, 2001). In the case of rural Chinese enterprises, we suggest that community culture can provide not only social networks for undertaking business transactions, but more importantly an embedded socio-cultural fabric that enables entrepreneurs to more effectively exploit economic opportunity in line with community pride and support.

Social entrepreneurship

In our research context, we conceptualize social entrepreneurship as market-oriented entrepreneurial behaviour aiming to benefit the wellbeing and economic development of a community and its citizens. We suggest that within market preserving authoritarianism, local state corporatism plays a central role in acting as political, social and economic facilitators for social entrepreneurship among China's rural enterprises. Through wielding their wider political power and fostering good social relations, community governments help local firms gain preferential access to state resources (technology and raw materials), obtain large bank loans, secure contracts with state-owned enterprises, win political protection and favor from the central government, increase economies of scale, and reduce transaction costs (Chang and Wang, 1994; Che and Qian, 1998; Nee, 1992). From a social perspective, entrepreneurial orientation of community culture also has been argued to contribute to the growth of social entrepreneurship in rural Chinese enterprises (Huang, 1998; Peng, 2001).

While it is clear that China's rural enterprises are becoming market oriented and are in pursuit of entrepreneurial market behavior, the role of social and institutional arrangements at the community level appears to be neither uniform nor transparent. Local community governments have facilitated the development of local rural enterprises and restructured the institutional landscape. The involvement of local governments in local enterprises' entrepreneurial behaviors may be more complex.

Market orientation

Entrepreneurial firms engage in product-market innovations, undertake relatively risky market behaviors, and initiate proactive actions (Lumpkin and Dess, 1996; Miller and Friesen, 1984). Some may be driven by the desire to pursue technological breakthrough, yet others may be motivated by the prospect of acting on new market opportunities and threats. Market orientation, on the other hand, has been studied as an organizational culture related to intelligence generation, organization-wide dissemination, and responsiveness to the market (Deshpandé and Farley, 1999; Jaworski and Kohli, 1993; Slater and Narver, 1995). A market-oriented firm tends to be well positioned to anticipate and respond to the emerging needs of their customers through information sharing and utilization.

A market-oriented firm involves an organizational culture that is less resistant to change, which thereby allows entrepreneurial activities to flourish (Hornsby *et al.*, 2002). Indeed, Nonaka and Takeuchi (1995) have found that most innovations emanate from information sharing and utilization across different levels of an organization (a substantial part of market orientation). Research has also noted that a market-oriented culture can encourage middle-level managers' willingness or ability to facilitate entrepreneurial initiatives (Zahra *et al.*, 1999). In the view of Floyd and Woolridge (1997), a market orientation enables middle-level managers to use effective communication and rewards to create the internal social capital and trust needed for

spurring the entrepreneurial process. They observe that this social capital (internally based) is of great importance because it encourages employees to take risks and be proactive, without fear for their job or loss in reputation. In a sense, a market-oriented business builds on the organization culture that most effectively and efficiently minimizes internal social and political barriers for the creation of empowerment directed toward the external market environment and in support of market-driven entrepreneurial endeavors.

Discussion

This paper proposes a framework of social entrepreneurship for rural entrepreneurial firms in the transitional market economy of China. The framework highlights both institutional and social determinants and consequences of market orientation in regard to social entrepreneurship. Deshpandé and Farley (1999) stated that firms in industrializing countries, particularly those emerging from centrally planned economies into economies that are more dependent on market forces, are likely to become the subjects of considerable research. In their view, some of this research should be directed at determining to what extent the accepted beliefs about “good” management and marketing practices, which have been developed primarily in industrial market economies, can be applied to transitional market economies. Transitional economies are often characterized by a socialist legacy, and economic decentralization. Countries in the midst of such economic transition present examples of institutional and market environments immensely different from those in Western economies (Child, 1994). Focusing on social and institutional differences, Prahalad and Lieberthal (1998) stress that there is an urgent need to end Western corporate imperialism when searching for growth opportunities in emerging or transitional markets such as China’s. As they suggest, Western managers should become aware of the business models for the new markets. Otherwise, the firms still are likely to be advised on the basis of knowledge developed elsewhere about “good” practices of marketing in particular and management in general (Deshpandé and Farley, 1999). Hence, this research will be useful in helping Western managers to share their knowledge of the phenomenon of social entrepreneurship in the context of China’s transition to a market economy.

Researchers from different disciplines have attempted to address the fundamental question of whether China’s rural enterprises represent a model of efficient organization in a competitive market environment, or simply of efficient institutional adaptation to partial reform, or a combination of both. From a combination of institutional and managerial viewpoints, we link the macro-level implications of local state governance and collective community culture to the micro-level impact on firms’ market orientation and business performance through social entrepreneurship. By incorporating institutional, social and market forces into the competitive market behavior model, we aim to critically assess the major factors leading to the phenomenon of social entrepreneurship governing the success of China’s rural enterprises. Assessing these factors will do much to enhance knowledge about the competitiveness of the China’s new emerging firms, whether market driven or institutionally driven. Theoretically, this research may provide a foundation for analyzing reformed enterprises’ institutional adaptation and organizational actions in response to the rapidly changing market environment. It may also provide insights about local state governance, ownership structures and market competition in China.

References

- Batra, R. (1997), "Executive insights: marketing issues and challenges in transitional economies", *Journal of International Marketing*, Vol. 5 No. 4, pp. 95-114.
- Bruton, G.D., Lan, H. and Lu, Y. (2000), "China's township and village enterprises: Kelon's competitive edge", *Academy of Management Executive*, Vol. 14 No. 1, pp. 19-29.
- Buckly, P., Clegg, J. and Tan, H. (2005), "Reform and restructuring in a Chinese state-owned enterprise: Sinotrans in the 1990s", *Management International Review*, Vol. 45 No. 2, pp. 147-72.
- Byrd, W.A. and Lin, Q. (1989), *China's Rural Industry: Structure, Development, and Reform*, Oxford University Press, New York, NY.
- Chang, C. and Wang, Y. (1994), "The nature of the township-village enterprise", *Journal of Comparative Economics*, Vol. 19 No. 3, pp. 434-52.
- Che, J. and Qian, Y. (1998), "Institutional environment, community government, and corporate governance: understanding China's township and village enterprises", *Journal of Law, Economics and Organization*, Vol. 14 No. 1, pp. 1-23.
- Child, J. (1994), *Management in China during the Age of Reform*, Cambridge University Press, Cambridge.
- Child, J. and Tse, D.K. (2001), "China's transition and its implications for international business", *Journal of International Business Studies*, Vol. 32 No. 1, pp. 5-22.
- China Statistical Press (2004), *China Economic Census Yearbook*, China Statistical Press, Beijing.
- Covin, J.G. and Slevin, D.P. (1989), "Strategic management of small firms in hostile and benign environments", *Strategic Management Journal*, Vol. 10 No. 1, pp. 75-87.
- Deng, S. and Dart, J. (1999), "The market orientation of Chinese enterprises during a time of transition", *European Journal of Marketing*, Vol. 33 Nos 5/6, pp. 631-54.
- Deshpandé, R. and Farley, J.U. (1999), "Executive insights: corporate culture and market orientation: comparing Indian and Japanese firms", *Journal of International Marketing*, Vol. 7 No. 4, pp. 111-27.
- Floyd, S.W. and Wooldridge, B. (1997), "Middle management's strategic influence and organizational performance", *Journal of Management Studies*, Vol. 34 No. 3, pp. 465-85.
- Groves, T., Hong, Y., McMillan, J. and Naughton, B. (1994), "Autonomy and incentives in Chinese state enterprises", *Quarterly Journal of Economics*, Vol. 109 No. 1, pp. 183-209.
- Hornsby, J., Kuratko, D. and Zahra, S. (2002), "Middle managers' perception of the internal environment for corporate entrepreneurship: assessing a measurement Scale", *Journal of Business Venturing*, Vol. 17, pp. 253-73.
- Huang, X. (1998), "Two-way changes: kinship in contemporary rural China", in Flemming, C. and Zhang, J. (Eds), *Village Inc.: Chinese Rural Society in the 1990s*, University of Hawaii Press, Hawaii, pp. 177-91.
- Jack, S. and Anderson, A. (2002), "The effects of embeddedness on the entrepreneurial process", *Journal of Business Venturing*, Vol. 17 No. 5, pp. 467-87.
- Jaworski, B. and Kohli, A. (1993), "Market orientation: antecedents and consequences", *Journal of Marketing*, Vol. 57 No. 3, pp. 53-70.
- Jefferson, G. and Rawski, T. (1994), "Enterprise reform in Chinese industry", *The Journal of Economic Perspectives*, Vol. 8 No. 2, pp. 47-70.
- Jin, H. and Qian, Y. (1998), "Public versus private ownership of firms: evidence from rural China", *The Quarterly Journal of Economics*, August, pp. 773-811.

- Kodithuwakku, S.S. and Rosa, P. (2002), "The entrepreneurial process and economic success in a constrained environment", *Journal of Business Venturing*, Vol. 17 No. 5, pp. 431-65.
- Li, S. and Lian, P. (1999), "Decentralization and coordination: China's credible commitment to preserve the market under authoritarianism", *China Economic Review*, Vol. 10, pp. 161-90.
- Lin, N. (1995), "Local market socialism: local corporatism in action in rural China", *Theory and Society*, Vol. 24 No. 3, pp. 301-54.
- Lumpkin, G. and Dess, G. (1996), "Clarifying the entrepreneurial orientation construct and linking it to performance", *The Academy of Management Review*, Vol. 21 No. 1, pp. 135-72.
- Luo, Y. (1999), "Environment-strategy-performance relations in small businesses in China: a case of township and village enterprises in Southern China", *Journal of Small Business Management*, Vol. 37, pp. 37-52.
- Luo, Y., Tan, J. and Shenkar, O. (1998), "Strategic responses to competitive pressure: the case of township and village enterprises in China", *Asia Pacific Journal of Management*, Vol. 15, pp. 33-50.
- McDougall, P. and Oviatt, B. (2000), "International entrepreneurship: the intersection of two research paths", *The Academy of Management Journal*, Vol. 43 No. 5, pp. 902-6.
- MacMurray, T. and Woetzel, J. (1994), "The challenge facing China's state-owned enterprises", *The McKinsey Quarterly*, Vol. 2, pp. 61-74.
- Matsuno, K., Mentzer, J. and Ozsomer, A. (2002), "The effects of entrepreneurial proclivity and market orientation on business performance", *Journal of Marketing*, Vol. 66 No. 3, pp. 18-32.
- Miller, D. and Friesen, P. (1984), "A longitudinal study of the corporate life cycle", *Management Science*, Vol. 30 No. 10, pp. 1161-283.
- Mort, G.S., Weerawardena, J. and Carnegie, K. (2003), "Social entrepreneurship: towards conceptualization", *International Journal of Nonprofit and Voluntary Sector Marketing*, Vol. 8 No. 1, pp. 76-88.
- Murphy, R. (2000), "Return migration, entrepreneurship and local state corporatism in rural China: the experience of two counties in south Jiangxi", *Journal of Contemporary China*, Vol. 9 No. 4, pp. 231-47.
- Nee, V. (1992), "Organizational dynamics of market transition: hybrid forms, property rights, and mixed economy in China", *Administrative Science Quarterly*, Vol. 37, pp. 1-27.
- Nonaka, I. and Takeuchi, H. (1995), *The Knowledge-creating Company: How Japanese Companies Create the Dynamics of Innovation*, Oxford University Press, Oxford.
- Oi, J. (1992), "Fiscal reform and the economic foundations of local state corporatism in China", *World Politics*, Vol. 45 No. 1, pp. 99-126.
- Park, S.H. and Luo, Y. (2001), "Guanxi and organizational dynamics: organizational networking in Chinese firms", *Strategic Management Journal*, Vol. 22 No. 5, pp. 455-71.
- Peng, M.W. and Heath, P.S. (1996), "The growth of the firm in planned economics in transition: institutions, organizations, and strategic choice", *Academy of Management Review*, Vol. 21 No. 2, pp. 492-528.
- Peng, M.W. and Luo, Y. (2000), "Managerial ties and firm performance in a transition economy: the nature of a micro-macro link", *Academy of Management Journal*, Vol. 43 No. 3, pp. 486-501.
- Peng, M.W. and Shekshnia, S.V. (2001), "How entrepreneurs create wealth in transition economies", *Academy of Management Review*, Vol. 15 No. 1, pp. 95-110.

- Peng, Y. (2001), "Chinese villages and townships as industrial corporations: ownership, governance, and market discipline", *American Journal of Sociology*, Vol. 106 No. 5, pp. 1338-70.
- Perkins, F.C. (1996), "Productivity performance and priorities for the reform of China's state-owned enterprises", *The Journal of Development Studies*, Vol. 32 No. 3, pp. 414-44.
- Perotti, E.C., Sun, L. and Zou, L. (1999), "State-owned versus township and village enterprises in China", *Comparative Economic Studies*, Summer/Fall, pp. 151-79.
- Prahalad, C.K. and Lieberthal, K. (1998), "The end of corporate imperialism", *Harvard Business Review*, Vol. 76 No. 4, pp. 69-79.
- Slater, S. and Narver, J. (1995), "Market orientation and the learning organization", *Journal of Marketing*, Vol. 59 No. 3, pp. 63-74.
- State Bureau of Information (2002), *China Statistical Year Book 2006*, State Bureau of Information, Beijing.
- Thompson, J.L. (2002), "The world of the social entrepreneur", *The International Journal of Public Sector Management*, Vol. 15 No. 5, pp. 412-31.
- Walder, A. (1995), "Local governments as industrial firms: an organizational analysis of China's transitional economy", *American Journal of Sociology*, Vol. 101, pp. 263-301.
- Wang, J. (2005), "Going beyond township and village enterprises in rural China", *Journal of Contemporary China*, Vol. 14 No. 42, pp. 177-87.
- Weitzman, M. and Xu, C. (1994), "Chinese township-village enterprise as vaguely defined cooperatives", *Journal of Comparative Economics*, Vol. 18 No. 2, pp. 329-52.
- Wilkinson, B., Eberhardt, M. and Millington, A. (2006), "On the performance of Chinese state-owned and private enterprises: the view from foreign-invested enterprises", *Journal of General Management*, Vol. 32 No. 1, pp. 65-80.
- Xiaohe, Z., Findlay, C. and Watson, A. (1994), "Growth of China's rural enterprises: impacts on urban-rural relations", *Journal of Development Studies*, Vol. 31 No. 4, pp. 567-84.
- Xin, R.K. and Pearce, J.L. (1996), "Guanxi: connections as substitutes for formal institutional support", *Academy of Management Journal*, Vol. 39 No. 6, pp. 1641-58.
- Zahra, S., Nielsen, A. and Bogner, W. (1999), "Corporate entrepreneurship, knowledge, and competence development", *Entrepreneurship Theory and Practice*, Vol. 23 No. 3, pp. 169-90.
- Zhang, R. (2000), "Private enterprise needs institutional re-innovation", *Chinese Rural Economy*, Vol. 8, pp. 58-63.
- Zhou, L. (2000), "The changing nature of market orientation and business practices in China's township and village enterprises", in Deeter-Schmelz, D. (Ed.), *Proceedings of the 2000 Society for Marketing Advances (SMA)*, November, pp. 8-11, Orlando, FL.

Further reading

- Day, G.S. (1994), "The capabilities of market-driven organizations", *Journal of Marketing*, Vol. 58 No. 4, pp. 37-52.
- Menon, A., Jaworski, B. and Kohli, A. (1997), "Product quality: impact of interdepartmental interactions", *Journal of Academy of Marketing Science*, Vol. 25 No. 3, pp. 187-200.

Corresponding author

Patrick Poon can be contacted at: patpoon@ln.edu.hk

To purchase reprints of this article please e-mail: reprints@emeraldinsight.com
Or visit our web site for further details: www.emeraldinsight.com/reprints

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.