

The development of entrepreneurship in China

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Abstract In this paper, we provide an overview of the extant research on the development of entrepreneurship in China. This research focus is a relatively recent phenomenon since China's market transition started from late 1978. We review the literature over the 26 years from 1980 through 2005, as published in 11 leading English-language academic journals. We identify 68 articles from this review and analyze them based on the research subjects, methods, and firm types. From this review, and integrating with research on market transitions, we propose a three-stage model of market transitions that has important implications for entrepreneurship research in transition economies.

Keywords Entrepreneurship development · Market transition · China · Transition economy

China is the largest transition economy in the world. After nearly three decades of sustained market transition, domestic entrepreneurial organizations, including private start-ups, township and collective enterprises, and transformed state-owned enterprises (SOEs), have emerged as one of the most important driving forces behind China's rapid economic development. In the literature, a fundamental characteristic of entrepreneurship is concerned with various forms of creation and newness (Brush et al., 2003; Kazanjian, Drazin, & Glynn, 2001). Considering the inherently chaotic

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and unpredictable nature of institutional transition, the creation and newness of entrepreneurship activities in China could be very different from those in more advanced economies (e.g. Ahlstrom & Bruton, 2002). Yet to date, the management and entrepreneurship literature has paid only limited attention to these issues. The rapid development of entrepreneurship in China underscores an urgent need for systematic knowledge of its characteristics and growth patterns.

Our article provides an overview of the extant research related to the development of domestic entrepreneurship in China.¹ We review the literature published in 11 leading English-language academic journals in management and entrepreneurship over the 26 years from 1980 to 2005. From this review, we identify 68 articles and characterize them along three dimensions: the subject of study, the research methods employed, and the types of organizational forms examined. We have three objectives. The first is to provide scholars with knowledge about the types of entrepreneurship research that have been done on China since 1980. The second objective is to map the contributions of this literature by reviewing the primary theoretical perspectives, key findings and conclusions and identifying research opportunities in the literature. The third objective is to develop an organizing framework to reflect the unique pattern of the emergence, diffusion, and transformation of domestic entrepreneurship in China. Based on this framework, we then delineate important areas for future research.

A survey of China-related entrepreneurship research

Journal sources

We considered four key factors when choosing target academic journals to be included in the literature survey. First, despite of the ever-growing interests in the study of entrepreneurship, entrepreneurship as a field of research is still in a theory-building stage (Harrison & Leitch, 1996; Wiseman & Skilton, 1999) and has been intersecting with research in other social science disciplines, particularly the strategic management domain (Aldrich & Baker, 1997; Busenitz et al., 2003; Lumpkin & Dess, 1996; Shane & Venkataraman, 2000). As scholars in the management field, we are keen on opportunities for integrating and synthesizing the best research of management and entrepreneurship (Hitt & Ireland, 2000). So in this review, we will include some leading academic journals in the field of general management (Johnson & Podsakoff, 1994; Li & Tsui, 2002; Li & Yang, 2006; Tahai & Meyer, 1999). Yet, considering that this review serves as a first step in helping us capture the essence of China-related entrepreneurship literature, we would like to emphasize more on depth rather than width in this review. Therefore, in this review, we included seven commonly-agreed upon leading academic journals in the field of general management (Busenitz et al., 2003): *Academy of Management Journal (AMJ)*, *Academy of Management Review (AMR)*, *Administrative Science Quarterly (ASQ)*,

¹ We focus specifically on the People's Republic of China. Therefore, we have not reviewed literature on entrepreneurship among overseas Chinese, such as those in Hong Kong, Taiwan, and Southeast Asia—see Yeung (2006) for a recent review.

Journal of Management (JOM), *Management Science (MS)*, *Organization Science (OS)*, and *Strategic Management Journal (SMJ)*. We also included the *Asia Pacific Journal of Management (APJM)*, the leading journal on Asia Pacific management in the review (Li & Tsui, 2002; Li & Yang, 2006; Quer, Claver, & Rienda, 2007). Second, we included three leading academic journals in entrepreneurship (Busenitz et al., 2003), i.e. *Journal of Business Venturing (JBV)*, *Entrepreneurship Theory and Practice (ETP)*, and *Journal of Small Business Management (JSBM)*. Thirdly, with primary interests in entrepreneurship theory development and testing, we decided to focus only on academic journals that publish research derived from rigorous scientific methods. We thus excluded management practitioner journals from the survey sample for this review. Finally, since this review focused on the development of domestic entrepreneurship in China, we also excluded international business journals, such as *International Business Review (IBR)*, *Journal of International Business Studies (JIBS)*, and *Management International Review (MIR)*.

Article selection

A fundamental characteristic of entrepreneurship is a focus on creation, including the creation of new ventures and organizations, and the discovery of new goods, services, raw materials, and organizing methods as well as organizational renewal and innovations within an existing organization (Amit, Glosten, & Mueller, 1993; Brush et al., 2003; Casson, 1982; Shane & Venkataraman, 2000). In this review, we define China's entrepreneurship as those creations and newness initiated by Chinese citizens or domestic firms, including private start-ups, township and collective enterprises, and transformed SOEs. To be included in this review an article had to address a theoretical or empirical issue related to China's entrepreneurship and its activities. Empirical studies had to include data based on managers or companies involved with entrepreneurial activities as defined above. It is likely that a study can address entrepreneurship-related activities without using the word "entrepreneurship". Thus, we did not limit our search only on the keywords "China," "Chinese," "entrepreneur," and "entrepreneurship," but expanded the search with a set of other keywords such as "innovation," "private business/enterprise/firm," "private sector," "small business," "township or village enterprise," "transition" and "venture capital" and relied on *ABI-Inform* database for the literature search. We also cross-checked our database against the lists of China-related management and organization articles in several other published reviews (Li & Tsui, 2002; Li & Yang, 2006; White, 2002).

This review identifies a total of 68 articles related to entrepreneurship in China in the 11 journals, with only three articles published in the first 10-year period (1980–1989), 27 articles published in the second 10-year period (1990–1999), and 38 articles in the third period (2000–2005). Table 1 lists the number of articles in each of the 11 journals over the three time periods.

Two observations can be made from Table 1. First, it shows that 36 articles were published in the eight management journals, and 32 articles were published in the three leading entrepreneurship journals. Each entrepreneurship journal had published ten or more articles related to entrepreneurship in China in the past 26 years. Yet, over the same period, none of the management journals had published a comparable number of articles and merely three of them (*Organization Science*, *Strategic*

Table 1 China-related entrepreneurship research: survey of ten leading academic journals in management and entrepreneurship, 1980–2005.

Journal name	Number of articles			
	Subtotal	1980–1989	1990–1999	2000–2005
<i>Management</i>	36	1	11	24
Organization Science (OS)	8		2	6
Strategic Management Journal (SMJ)	8		1	7
Academy of Management Journal (AMJ)	6		1	5
Academy of Management Review (AMR)	5		1	4
Administrative Science Quarterly (ASQ)	3	1	2	
Journal of Management (JOM)	2		1	1
Management Science (MS)	2		2	
Asia Pacific Journal of Management (APJM)	2		1	1
<i>Entrepreneurship and Small Business</i>	32	2	16	14
Entrepreneurship Theory and Practice (ETP)	11		5	6
Journal of Business Venturing (JBV)	11		6	5
Journal of Small Business Management (JSBM)	10	2	5	3
Total	68	3	27	38

Management Journal, and *Academy of Management Journal*) published more than five relevant articles.

Second, the table shows the number of articles appearing in the mainstream; leading management journals have significantly increased over time, with 11 articles published in the second period (10 years, 1990–1999) and 24 articles published in the third period (only 6 years, 2000–2005). This pattern suggests a growing interest in entrepreneurship-related issues in the Chinese context among management scholars and journal editors. Similarly, the number of articles appearing in the entrepreneurship journals also indicates an increasing interest in the entrepreneurship phenomenon in China. With the continuing market transition and the proliferation of entrepreneurial activities in China's economy, we believe that this research interest will continue and that high-quality research related to entrepreneurship in China will appear more frequently in leading management and entrepreneurship journals in the future.

Research issues and methods

What are the China-related entrepreneurship issues that have received research attention in the mainstream management and entrepreneurship literature so far? Have there been any changes in the research topics and methods over the 26 years of the review period? To answer these questions, we classified each article by the research issues they addressed, by the research methods they employed, and by the organizational forms they emphasized. Each author first independently listed issues investigated in the 68 articles. Through subsequent comparisons and discussions, we reached consensus on four general topics across the two domains. Each article was then coded as to the primary topic addressed in its research questions.

We further found four general topics that can be attributed to three levels of analysis in each domain: environmental/macro, firm strategy/structure, and

individual/micro levels. Across the three levels of the studies, China as a research context would have played different roles on the development of entrepreneurship. Studies at the environmental/macro level tend to treat “China” as an institutional context, implying a social, political, and economic structure that may impact the entrepreneurial decisions and behavior of firms and individuals. Firm-level studies focus on investigating how China’s institutional environment impacts the strategies/structures and their changes in entrepreneurial ventures, as well as their implications for firm growth/performance. Individual/micro studies tend to treat “China” as a social-cultural variable, a proxy for cultural values that may influence cognitions, behaviors and decisions at the individual level. Our survey suggests that scholars in management and entrepreneurship have paid their attentions on different research themes over the review period. Management scholars and journal editors seem to be more interested in examining firm-level themes (23 out of 36 articles, 64%), while entrepreneurship researchers tend to focus more on the issues concerning the opportunity for the emergence of entrepreneurship (19 out of 32 articles, 60%).

In addition, we grouped all the articles in the survey according to the research methods used, including survey/quantitative studies, case-based/qualitative studies, and conceptual development/overview studies. Furthermore, we classified the articles based on the types of organizational forms they focused on, including private/small businesses, entrepreneurial high-tech firms, township enterprises, and transformed SOEs. Table 2 summarizes the distributions.

In terms of the research methods used, among the articles in the management journals, 23 (64%) are survey-based, 11 (31%) are conceptual and overview studies, and only two (5%) are case-based qualitative studies. The majority of the firm-level studies (19 out of 23 articles, 83%) are found to use survey-based or quantitative methods, while the majority (7 out of 11, 64%) of the studies at the environmental/macro level are conceptual and overview papers. In contrast, among the articles in the entrepreneurship journals, 16 (50%) are survey/quantitative studies, 12 (38%) are conceptual and overview papers, and the remaining four (12%) are case-based qualitative studies. Both survey-based/quantitative methods and case-based/qualitative methods have been employed to examine the issues across levels. Yet, the conceptual and review approach has been adopted to mainly examine the environmental/macro issues, i.e. “Market transition/entrepreneurship development”.

In our survey, 35 articles did not specify a clear organizational form when examining the research issues. Among the remaining 33 articles, 15 (45%) focused on private and small businesses, five (16%) examined entrepreneurial high-tech firms, three (10%) were about township and collective enterprises, and nine (29%) addressed privatization of SOEs. From Table 2, we can see that studies published in the two streams of journal outlets presented different distributions across the types of organizational forms. In the management journals, seven out of 13 studies (54%) focused on the transformation of SOEs, three on high-tech firms, two on private/small businesses, and one for township enterprises. In the entrepreneurship journals, 18 studies (90%) exclusively pointed to small entrepreneurial firms, including 13 articles on private and small businesses, two on entrepreneurial high-tech firms, and three articles on township enterprises. Although the number is small, we did find two studies related to the entrepreneurial activities in transformed SOEs. This

Table 2 China-related entrepreneurship research: research methods and organization forms.

Research themes	Subtotal	Research methods			Organization forms				
		Survey/ quantitative	Case study/ qualitative	Conceptual / overview	Private/small business	High-tech	Township and village	SOEs	Mixed
<i>Management</i>	36	23	2	11	2	3	1	7	23
Market transition/business system change	8		1	7				1	7
Firm strategy/outcome	18	14	1	3		3	1	5	9
Inter-firm relationship/networks	5	5			1				4
Managerial values/traits/behavior	5	4		1	1			1	3
<i>Entrepreneurship and Small Business</i>	32	16	4	12	13	2	3	2	12
Market transition/entrepreneurship development	19	7	1	11	9		2	1	7
Firm strategy/outcome	3	3			1	1	1		
Inter-firm relationship/networks	1		1						
Entrepreneurial values/traits/behavior	9	6	2	1	3			1	5
Total	68	39	6	23	15	5	4	9	35

corroborates our broad definition of China's entrepreneurship development that manifested in the beginning of the review.

In summary, the 68 articles published in the 11 leading English-language journals over the past 26 years provide us with a snapshot of past and current research interests in the development of entrepreneurship in China. The increasing appearance of such studies in mainstream management and entrepreneurship journals suggests their value to global scholarship, and research on the development of entrepreneurship in China has attracted growing attention among global scholars.

Mapping the contributions of the literature

In this section, we summarize the key issues/conclusions of each article under four general research themes across the three levels. Table 3 provides an overview of these studies. Given the integrated nature of many studies, the distinction among these areas is somewhat arbitrary. We believe, however, that such an intuitive clustering would serve as a first step in helping us capture the essence of this literature.

Environmental/macro level

Most of the environmental/macro studies in the management journals described the transition nature of China's economy (Table 3 (Environmental/macro studies)). Of the eight studies identified with the theme of "market transition/business system change", two focused on privatization of China's economy (Dharwadkar, George, & Brandes, 2000; Ramamurti, 2000), three formulated theories on hybrid organizational forms and ownership/property rights change (Boisot & Child, 1988, 1996; Nee, 1992), one examined the development of financial institutions and its impacts on entrepreneurship activities (George & Prabhu, 2000), and the remaining two studies discussed the challenges and importance of studying management and organizational issues in the Chinese context (Shenkar & von Glinow, 1994; Tsui, Schoonhoven, Meyer, Lau, & Milkovich, 2002). This line of literature tends to treat "China" as a unique institutional context, encompassing social, political, and economic elements that have impacted the reforms in the state-owned sector and the emergence of private firms. Therefore, economic and macro organization theories, such as agency theory (Dharwadkar et al., 2000), transaction cost economics (Boisot & Child, 1988; Ramamurti, 2000), stakeholder theory (George & Prabhu, 2000), and neoinstitutional perspective (Boisot & Child, 1996; Nee, 1992) have been mainly employed as the theoretical perspectives to explain the above issues.

In a similar vein, the 19 environmental/macro studies in the entrepreneurship journals depicted how cultural, political, economic, and other environmental conditions influence the emergence and development of entrepreneurship in China (Table 3 (Environmental/macro studies)). Seven studies presented a historical or comparative review on China's entrepreneurship development (Chang & MacMillan, 1991; Fan, 1996; Matthews, 1996; Tan, 2005, 2007; Tsang, 1996; Wing & Yiu, 1996). Two studies highlighted the opportunities and threats faced by entrepreneurs in China (Tsang, 1994; Wing & Yiu, 2000). Three studies discussed the implications

Table 3 China-related entrepreneurship research: detailed research topics and summary of theoretical perspectives.

3a: Environmental/Macro Studies	
<i>Management</i>	Issues/Conclusions
Market transition/ business system change (8)	<ul style="list-style-type: none"> • Privatization of China's economy (Dharwadkar 2000, Ramamurti 2000) • Hybrid organizational forms and ownership/property rights change (Boisot & Child 1988 1996, Nee 1992) • Development of financial institutions and its impacts on entrepreneurship activities (George & Prabhu 2000) • Difficulty and importance of studying management and organizational issues in the Chinese context (Shenkar & von Glinow 1994, Tsui et al. 2004)
<i>Entrepreneurship and Small Business</i>	
Market transition/ business system change (19)	<ul style="list-style-type: none"> • Historical and comparative review on China's entrepreneurship development (Chang & MacMillan 1991, Fan 1996, Matthews 1996, Tan 2005 2007, Tsang 1996, Wing & Yiu 1996) • Opportunities and threats faced by entrepreneurs in China (Tsang 1994, Wing & Yiu 2000) • Implications of entrepreneurship development in China's economy (Anderson et al. 2003, Dana 1999, Chow 1995) • Specific factors influencing the evolution of China's entrepreneurial ventures, such as culture (Zapalska 2001), institutional environments (Begley, Tan & Schoch 2005, Bruton & Ahlstrom 2003), government interventions (Anyansi-Archibong, Danenburg, & Tan, 1989; Danenburg & Tan 1989), and technology transfer (Lado & Vozikis, 1996, Tan 1996)
3b: Firm-level Studies	
<i>Management</i>	Issues/Conclusions
Firm strategy/ outcome (18)	<ul style="list-style-type: none"> • Environment-strategy-performance relationships in China's transition economy (Boisot & Child 1999, Child & Lu 1996, Davies & Walters 2004, Keister 2002, Lukas, Tan & Hult 2001, Luo, Tan & Shenkar, 1998, Peng 2003, Peng & Heath 1996, Tan & Litschert 1994, Tan & Tan 2005) • Product/technology innovation strategy (Atuahene-Gima & Li 2004, Li & Atuahene-Gima 2001 2002), organizational governance and structure (Lin & Germain 2003, Peng 2004, White 2000), financial strategy (Keister 2004), and strategic alliance (Hitt et al. 2004)
Interfirm relationships/ network (5)	<ul style="list-style-type: none"> • Using "interfirm relationships/network" to manage institutional constraints in the transition economy (Luo 2003, Park & Luo 2001, Peng & Luo 2000, Wu & Leung, 2005, Xin & Pearce 1996).
<i>Entrepreneurship and Small Business</i>	
Firm strategy/ outcome (3)	<ul style="list-style-type: none"> • Environment-strategy-performance relations in township and village enterprises in southern China (Luo 1999) • Roles of institutions and culture in shaping strategic actions by technology-focused entrepreneurial firms in China (Ahlstrom & Bruton 2002) • The development of total quality management in small firms in China (Lee 2004)
Interfirm relationships/ network (1)	<ul style="list-style-type: none"> • Networking and the growth of young technology-intensive ventures in China (Zhao & Aram 1995)

Table 3 (continued)

3c: Individual/Micro Studies	
<i>Management</i>	Issues/Conclusions
Managerial values/traits/behavior (5)	<ul style="list-style-type: none"> • Effects of culture and cross-national differences on managers' values/behavior (Egri & Ralston 2004, Mitchell et al. 2000, Vertinsky et al. 1990, Weber & Hsee 1998) • Entrepreneur's limited accessibility to private equity (Batjargal & Liu 2002)
<i>Entrepreneurship and Small Business</i>	
Entrepreneurial values/traits/behavior (9)	<ul style="list-style-type: none"> • Effects of culture and cross-national differences on entrepreneurs' values/behavior (Brush & Chaganti 1996, Busenitz & Lau 1996, Hayton, George, & Zahra 2002, Holt 1997, Mcgrath et al. 1992, Mitchell et al. 2002) • Entrepreneurs' growth orientation (Lau & Busenitz 2001), and innovation and risk-taking attitude (Tan 2001, 2002) in the context of transition economy

of entrepreneurship development in China's economy (Anderson, Li, Harrison, & Robson, 2003; Chow, 1995; Dana, 1999). The remaining studies tended to focus on certain factors that influence the evolution of China's entrepreneurial ventures, such as culture (Zapalska & Edwards, 2001), institutional environments (Begley, Tan, & Schoch, 2005; Bruton & Ahlstrom, 2003), government interventions (Anyansi-Archibong, Danenburg, & Tan, 1989; Danenburg & Tan, 1989), and technology transfer (Lado & Vozikis, 1996; Tan, 1996).

Many studies in this literature regarded the emergence and proliferation of private firms/small businesses as an indicator of entrepreneurship, regardless of the fact that most of them are just craft workshops. This emphasis is a bit different from that of the entrepreneurship literature in the Western context, where the focus has been on creation of new ventures with discovery of new technology, new combinations of services, products, and etc. (Shane & Venkataraman, 2000). We will return to this observation in later sections.

The theoretical perspectives employed in this literature are broad, including transaction cost, information asymmetry, and agency theories from an economic perspective (Wing & Yiu, 2000); absorptive capacity and knowledge management from a strategic management perspective (Lado & Vozikis, 1996); resource-dependence and population ecology from an organization theory perspective (Begley, Tan, & Schoch, 2005), the institutional perspective (Bruton & Ahlstrom, 2003), and a combination of these different perspectives (Tsang, 1996; Wing & Yiu, 1996; Zapalska & Edwards, 2001).

Firm-level strategy

We classify the firm-level studies into two broad research themes: firm strategy/outcome, and inter-firm relationship/networks. Our discussions below primarily focus on studies of entrepreneurship related to China's domestic firms, including private firms, small businesses, township and village enterprises (TVEs), and transformed SOEs, and examine their interactions with the institutional environ-

ments as well as strategy, structure, and performance consequences. We do not focus on the entrepreneurship activities of foreign invested firms in this review.

When formulating and implementing its business strategies, a firm or an entrepreneur needs to consider its external environments, especially the institutional environments. This is particularly important in transition economies, where decision makers are more susceptible to the institutional influences and changes (Child, 1994; Peng, 2003; Scott, 2002). This emphasis has been reflected in the studies in our survey.

In the management journals, a number of studies examined the general pattern of environment-strategy-performance relationships in China (Boisot & Child, 1999; Child & Lu, 1996; Davies & Walters, 2004; Keister, 2002; Lukas, Tan, & Hult, 2001; Luo, 1999; Luo, Tan, & Shenkar, 1998; Peng, 2003; Peng & Heath, 1996; Tan & Litschert, 1994; Tan & Tan, 2005). Among these studies, some investigated subjective perceptions of firm performance using survey measures (e.g. Davies & Walters, 2004; Lukas, Tan, & Hult, 2001; Luo, 2003; Tan & Litschert, 1994; Tan & Tan, 2005), and others focused on more objective performance outcomes, such as accounting-based measures for sales growth and firm profit (e.g. Park & Luo, 2001; Peng, 2004). The remaining studies of this theme tend to focus on general corporate strategies and management topics, such as product/technology innovation strategy (Atuahene-Gima & Li, 2004; Li & Atuahene-Gima, 2001, 2002), corporate governance and organizational structure (Lin & Germain, 2003; Peng, 2004; White, 2000), financial strategy (Keister, 2004), and strategic alliances (Hitt, Ahlstrom, Dacin, Levitas, & Svobodina, 2004). Theoretical treatments used in this literature generally fall into the strategic management category, including resource-dependence theory (Davies & Walters, 2004; Li & Atuahene-Gima, 2001), resource-based view (e.g. Li & Atuahene-Gima, 2002; White, 2000), information process theory (Atuahene-Gima & Li, 2004), and strategy-structure-performance paradigm (Lin & Germain, 2003; Lukas, Tan, & Hult, 2001; Tan & Litschert, 1994). Many studies in this literature have tried to integrate the institution-based view with the strategic choice perspectives (Hitt et al., 2004; Keister, 2002, 2004; Peng, 2003, 2004; Tan & Tan, 2005) to explain the unique patterns of firm-level strategies in China.

Studies of the second theme in this stream mainly emphasized the importance of “inter-firm relationships/network” to manage institutional constraints in a transition economy (Luo, 2003; Park & Luo, 2001; Peng & Luo, 2000; Wu & Leung, 2005; Xin & Pearce, 1996). Here, the *guanxi* network and inter-organizational relationships are used to acquire critical resources, assess entrepreneurial opportunities, or to substitute for the institutional voids in the transition economy. The theoretical perspectives employed in this stream include social network theory, strategic management, and the institutional perspective.

There were not many firm-level studies published in the entrepreneurship journals. Among the three studies with the theme of “firm strategy/outcome”, one examined the environment-strategy-performance relations in township and village enterprises in southern China (Luo 1999), another one investigated the roles of institutions and culture in shaping strategic actions by technology-focused entrepreneurial firms (Ahlstrom & Bruton, 2002), and the last one explored the development of total quality management in small manufacturing firms (Lee, 2004). Clearly, these studies have attempted to integrate the institutional-based view and strategic choice perspectives to explain entrepreneurs’ strategic actions. There is only one study examining the theme

“inter-firm relationship/network”. Drawing on the social network theory and resource-based view, this study (Zhao & Aram, 1995) examined the relationship between inter-firm networking and the growth of young technology-intensive ventures in China.

Clearly, this line of research focusing on firm strategy and structure mainly examines why, when, and how entrepreneurial firms adopt various strategies and their implications for firm growth and performance outcomes. Our review on these firm-level studies generally supports the idea that institutional environments impact the strategy or structure changes and other transformation activities in China’s entrepreneurial ventures, as well as their implications to firm growth/performance. Table 3 (Firm-level studies) provides a snapshot of studies with this focus.

Individual/micro level

At this level we found that the research is mainly focusing on individual managers’ or entrepreneurs’ cognitions, values, and behavior (Table 3 (Individual/micro studies)). In both domains, many studies analyzed the effects of culture and cross-national differences on managers’ or entrepreneurs’ values/behavior (e.g. Egri & Ralston, 2004; Mitchell, Smith, Seawright, & Morse 2000; Vertinsky, Tse, Wehrung, & Lee, 1990; Weber & Hsee, 1998, in management journals; and Brush & Chaganti, 1996; Busenitz & Lau, 1996; Hayton, George, & Zahra, 2002; Holt, 1997; McGrath, Macmillan, & Tsai, 1992; Mitchell, Smith, Morse, Seawright, Peredo, & McKenzie, 2002, in entrepreneurship journals). The remaining studies examined entrepreneurs’ limited accessibility to private equity (Batjargal & Liu, 2004), growth orientation (Lau & Busenitz, 2001), and innovation and risk-taking attitudes (Tan, 2001, 2002) in the context of a transition economy. The theoretical perspectives employed in this literature included the integrations between the cross-cultural perspective, social cognition theory, and the institutional perspective.

An organizing framework

To better integrate the literature and to help identify gaps and areas for future research on China-related entrepreneurship research, we developed an organizing

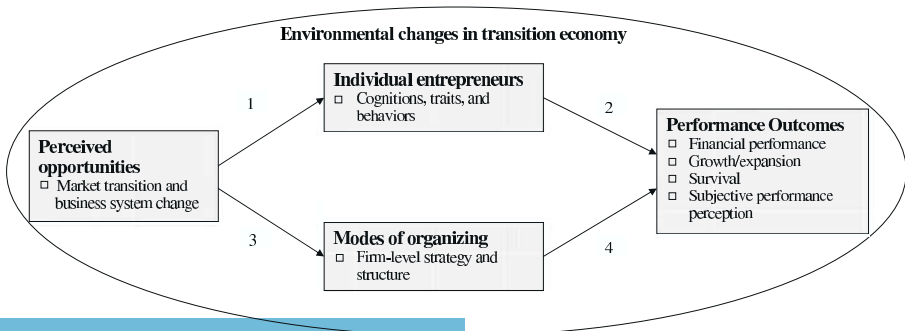


Figure 1 The China-related entrepreneurship research: an organizing framework

framework, shown in Figure 1, to illustrate the linkages among market transitions, entrepreneurial opportunities, entrepreneurial individuals, firm strategies/structures, and performance outcomes. This framework was developed based on a number of studies that have tried to identify the boundaries of entrepreneurship as a research field (Amit, Glosten, & Muller, 1993; Busenitz et al., 2003; Shane & Venkataraman, 2000; Venkataraman, 1997). These studies suggested that the constructs of opportunities, entrepreneurial individuals, and modes of organizing within the context of wider environments can be used as a unifying framework for entrepreneurship research. *Opportunities* often evolve from market and environmental changes or interactions between markets and environments, which may involve borrowing existing ideas or creating new means–ends relationships. The *entrepreneurial individuals* category focuses on the characteristics of individual entrepreneurs, the dynamic processes associated with the development of intellectual or human capital by individuals, and the comparison of different types of entrepreneurs or of entrepreneurs to non-entrepreneurs. The *modes of organizing* category includes management practices, the acquisition and deployment of resources, and the development of systems, strategies, and structures that allow a discovered opportunity to be transformed into a viable product or service. The *environments* category is concerned with the cultural, political, economic, and market factors converging to create a special environment that may enhance or inhibit entrepreneurship (Shane & Venkataraman, 2000). We added one more category—*outcomes*—to emphasize the performance consequences and implications of entrepreneurship activities, including both objective outcomes and subjective performance perceptions. While the discovery and exploitation of profitable opportunities have been the focus of the extant research in entrepreneurship research (Shane & Venkataraman, 2000), it is also critical to examine the performance outcomes of entrepreneurial attempts, particularly in a frequently changing institutional environment as in the case of the transition economy.

In the following sections, we first review briefly the linkages that have been investigated in our survey sample, i.e., the intersections between the five key constructs: *transitional environments*, *opportunities*, *entrepreneurial individuals*, *firm-level organizing modes*, and *outcome implications*. These linkages are concerned fundamentally with four research questions (e.g. Shane & Venkataraman, 2000): (1) Why, when, and how opportunities for the creation of goods and services come into existence; (2) Why, when, and how some people and not others discover and exploit these opportunities; (3) Why, when, and how different modes of action are used to exploit entrepreneurial opportunities; and (4) What are their performance implications.

Market transition and entrepreneurial opportunities

The Chinese economic reform since late 1978 has fundamentally transformed China's economy and society. This sustained economic liberalization, perceived as providing valuable opportunities for many individuals and existing economic units, has given birth to a new diversity in organizational forms and to a plurality of property ownership types (Boisot & Child, 1988, 1996; Nee, 1992; Zapalska & Edwards, 2001). Along with the booming of private and small businesses, Chinese

entrepreneurship—once under severe suppression before the economic reform—has been unleashed in almost every corner of the Chinese society and begun to make a significant contribution to the national economic development (Anderson, et al. 2003; Dana, 1999).

The literature has suggested that the legitimacy and proliferation of entrepreneurship in China have been accomplished through a constant quest for more economic freedom in an economy once dominated by a central planning system (e.g. Chang & MacMillan, 1991; Fan, 1996; Tan, 2005; Tsang, 1996). First, on an incremental basis, policy makers have made some notable efforts to decentralize the government's roles and enhance entrepreneurship activities in China, such as by initiating "sparking programs" and constructing "high-tech parks" in certain industries and regions, and by updating laws and regulations on private businesses (Anyansi-Archibong et al., 1989; Chang & MacMillan, 1991; Danenburg & Tan, 1989; Tan, 2005, 2007). Second, under the economic liberalization, China has also been experiencing a consumption boom. With increasing levels of standards of living, people spend more on consumer goods and services. This brought about great opportunities to prompt entrepreneurial activities in private and small businesses to correct existing price distortions and market deficiencies (Tsang, 1994).

Although the economic liberalization has offered tremendous opportunities, it is still incomplete and involved with many perplexities that could constrain the development and growth of Chinese entrepreneurship (Zapalska & Edwards, 2001). In the initial stage of reform, the non-state sector has only been assigned a supplementary role in the dominant public economy. This status has led to the discrimination against the small entrepreneurial firms in obtaining factor inputs, accounting partly for their vulnerability to interventions by local governments (Tsang, 1994; Wing & Yiu, 2000). In order to thrive and grow, entrepreneurial firms were often forced to collude with local governments or other major constituents holding valuable resources (Fan, 1996; Tsang, 1994). In addition, China's transition economy, generally characterized by weak capital market structures, limited legal protection for property rights, and high institutional uncertainty, creates an environment in which entrepreneurship may present different patterns than its counterparts in more advanced economies (Ahlstrom & Bruton, 2002; Boisot & Child, 1988, 1996; Nee, 1992).

In summary, the relationships between *environments* and perceived entrepreneurial *opportunities* are not as straightforward as they look like. In the case of China, economic transition not only offers genuine opportunities but also lays serious constraints for entrepreneurship development. The opportunities and constraints may change over time, and they will also be perceived differently by entrepreneurial individuals and entrepreneurial firms over the transition process of China's economy.

Link 1 and 2: perceived opportunities, entrepreneurial individuals, and performance outcomes

Facing a similar environmental space of opportunities, why are some individuals more prolific than others in starting new businesses? Driven by this question, some research in entrepreneurship has focused on identifying entrepreneurs' stable and enduring differences in their traits and used these to indicate an individual's

potential for successful entrepreneurship (Forbes, 1999; Krueger, 1993; Krueger & Brazeal, 1994). Yet, this approach is considered to be problematic because it puts too much emphasis on individual roles in entrepreneurship and does not consider variations in the opportunities that different people may identify (Gartner, 1990; Shane & Venkataraman, 2000). In contrast to the person-centric approach, researchers began to focus on entrepreneurial individuals interacting with their environments and, more importantly, on their cognition processes in discovering, evaluating, and exploiting opportunities (Shane & Venkataraman, 2000; Shook, Priem, & McGee, 2003).

Similar research has been done in the Chinese context. For instance, Tan (2001) argued that entrepreneurs in private firms tend to be more risk-taking, innovative and proactive than managers in SOEs in responding to the changing institutional environments. Ahlstrom and Bruton (2002) suggested that entrepreneurs in China employed certain tactics, not well known in the West, to deal with the institutional environments of a transition economy. Some studies emphasized that the propensity to engage in entrepreneurial activities is a function of individual cognitions (Brush & Chaganti, 1996; Busenitz & Lau, 1996). Lau and Busenitz (2001) tested a model of entrepreneurial cognitions among small business owners in China. They examined the influences of social context, personal factors, and cognitions of Chinese entrepreneurs on their growth intentions and methods of expansion. It showed that not only are entrepreneurs' commitment, need for achievement, and social environment important, but a cognitive understanding of the transition environments has a direct impact on firm growth intentions.

The remaining studies in the survey mainly examined the relationships between cultural, demographic and economic/structural characteristics in different countries/regions (including China) on the one hand, and entrepreneurs' values, orientations, and strategic choices on the other (Hayton, George, & Zahra, 2002; Holt, 1997; McGrath et al., 1992; Tan, 2002). These studies explored some of the significant variances in the propensity to engage in entrepreneurial activities across the international landscape. Although they are not China specific, the findings of these studies provided important rationales for why some individuals with different cultural roots (e.g., the Chinese culture) tend to be more prolific in starting new businesses than the others. Holt (1997) argued that Chinese entrepreneurs do exhibit cultural differences that distinguish them in international comparison, and are more likely to avoid uncertainty and subsequently less likely to exhibit innovations or advocate changes than their counterparts in Western countries.

There were not many studies that specifically address the differences in the success rates of new businesses and why the cognitive makeup or other individual factors may be a predominant source of competitive advantage. Yet, some implications could be found in our survey, i.e. the performance outcomes and perceptions of individual entrepreneurs depend on the "good interactions" between the entrepreneurs and their environment. Whether a new venture for pursuing the entrepreneur's perceived opportunities will eventually be successful is also subject to the organizing modes to be adopted by the venture for exploiting the opportunities. This will come to Link 3 and 4 in our framework, to be elaborated below.

Link 2 and 3: perceived opportunities, modes of organizing, and performance outcomes

How entrepreneurial opportunities are implemented and what the consequences of the implementations are two critical questions in entrepreneurship research. One of the major arrangements available for entrepreneurs to exploit their discovered opportunities is organizational hierarchies (Shane & Venkataraman, 2000). Organizational hierarchies reflect the basic management practices in the *modes of organizing* category, and thus can allow transforming the discovered opportunities into viable products or services. We will first present a general pattern of environment–strategy/structure relationships in China and then discuss product and innovation strategies for entrepreneurial firms in particular.

The nature of a transition economy makes it difficult for small and private entrepreneurial firms to secure financing or complementary assets, thus inducing barriers for them to pursue discovered opportunities (Cohen & Levin, 1989; Keister, 2004; Peng, 2003). Under this situation, strategies such as forming hybrid organizational forms and building alliances with other firms (Hitt, et al. 2004; Luo, 2003; Park & Luo, 2001; Zhao & Aram, 1995) or local governments (Jiang & Hall, 1996; Nee, 1992) may enjoy advantages over alternative choices for small and private firms. Hybrid organizational forms, defined as organizational arrangements that use resources and/or governance structures from more than one existing organization (Borys & Jemison, 1989: 235), are emphasized in the transition economy literature because they can reduce institutional uncertainty and enhance firms' competitiveness in domestic and international markets by providing subsidies, access to credit capital, and supporting infrastructures and related services (Oi, 1995). Alliances are commonly used by Chinese firms to make horizontal and vertical integrations (Boisot & Child, 1988, 1996). These alliances contribute to the development of quasi-market networks within China and have become a growing trend. Networks and inter-organizational alliances offer greater capacities for generating and transmitting information, providing supplementary assets, and if sustained by trust-based relationships, they could act as a cushion against the possibility of business failure.

Nevertheless, the hybrid form, government involvement, and inter-firm networks in China lack the support of a well-specified structure of property rights and effective autonomy, and therefore rely on personal ties rather than legal contracts to ensure that the parties will fulfill the terms of transactions. It is thus not surprising that many business transactions in China are settled through negotiations within a system of network relations based on interpersonal reciprocal obligations, especially *guanxi* ties with officials or cadres (Carroll, Goodstein, & Gyenes, 1988; Xin & Pearce, 1996). It has been argued that an underdeveloped legal framework makes managers from private firms more dependent on *guanxi* than those in SOEs or collective/hybrid companies (Xin & Pearce, 1996). Entrepreneurs in private companies consider business connections more important, rely more on connections for protection, have more government connections, present more unreciprocated gifts, and trust their connections more. Their results are consistent with findings from other countries where the legal and regulatory institutions are not well developed (e.g., Redding, 1990).

What are the performance perceptions and outcomes of adopting such strategy for entrepreneurial firms in China? Peng and Luo (2000) argue that Chinese managers cultivate two types of ties, one with managers at other firms, such as suppliers, buyers, and competitors, and the other with government officials. They examine the implications of these two types of ties on firm performance. Park and Luo (2001) demonstrated that institutional and strategic factors are critical for *guanxi* utilization with government authorities. In general, they concluded that *guanxi* leads to higher firm performance, but only in terms of increased sales growth, not profit growth; *guanxi* benefits market expansion and competitive positioning of firms, but does not enhance internal operations. Some recent studies have begun to argue that with China's increasing market transformation, managerial ties and inter-organizational networks may become "only necessary, but no longer sufficient" conditions for business success (Tsang, 1998: p. 71). Guthrie (1998) also commented on the declining economic importance of *guanxi* in China and the increasing realization that "*guanxi* only helps if you are competitive" (p. 281).

The growth of small and private entrepreneurial firms has made an increasingly important contribution to national income and employment (Anderson et al., 2003; Dana, 1999). Yet owing to the nature of a transition economy, the competition in many industries in China is still "dysfunctional"—firms are often stuck on competing on volume and low price, rather than on developing innovative capabilities—so entrepreneurship in the form of product innovation is minimal (Li & Atuahene-Gima, 2001). Local firms are often simply imitating other firms' products and technology, and exploiting them in low-risk and fast-return markets, without focusing on technological improvements (Guthrie, 1997; Khanna & Palepu, 1997). Furthermore, the weak enforcement of intellectual property rights protection often leads firms to see product innovation as a highly risky and less profitable strategy, and thus discourages them from undertaking product innovations. In examining the relationship between innovation and the performance of new technology ventures in China, Li and Atuahene-Gima (2001) did not find a clear linear relationship, but suggested a need to consider environmental and relationship-based strategy factors as moderators of the innovation–performance relationship.

Future research directions

Our survey of the China-related entrepreneurship literature over the past 26 years suggests that, although the market transition in China in general is at a relatively early stage, especially regarding the reemergence of entrepreneurship, a significant body of scholarship has been accumulated through the hard work of a global network of scholars. These studies have contributed to our understanding of entrepreneurship in the early stage of market transitions. What has been largely missing in this literature, we argued, is a temporal dimension, i.e. the domestic entrepreneurship development over time in China. China has embarked on the institutional transition from a relationship-based market structure to a more rule-based competition structure (Peng, 2003). How can such institutional transition shape the nature of entrepreneurial opportunities? How do entrepreneurs adapt their cognition processes in discovering, evaluating, and exploiting the constantly changing opportunities? Who are more

likely to succeed as opportunities evolve? How do entrepreneurial firms shift their strategic focuses as market landscapes change?

Nevertheless, the China-related entrepreneurship development literature we have surveyed has paid limited attention to these issues. In order to develop adequate knowledge and coherence for entrepreneurship theory and practice in a transition economy, future research should adopt a dynamic perspective and examine how the diverse and frequently changing market environments affect the perceived opportunities by individual entrepreneurs and their entrepreneurial firms, and in turn, their implications for performance outcomes.

In view of the framework presented in Figure 1 and to integrate with research on market transitions, we propose a three-stage model (Table 4) of market transitions and entrepreneurship development in China. Peng (2003) proposed a two-stage model of institutional transitions. Drawing on our survey results, we extend the work of Peng (2003) into a three-stage model with the aim of illustrating the nature of China's institutional transitions and their dynamic influences on the key constructs in entrepreneurship as well as the ways they are interacting. We first describe the beginning and ending stages of the market transition, and follow with the addition of an intermediate stage, which we believe could last for a long period of time and require more attention in future research.

Following the existing literature (Peng & Heath, 1996; Xin & Pearce, 1996), Phase I (T1) is defined as the "beginning of market transition," a period when the relationship-based and personalized transaction mode dominates. China's economy during this period, characterized by various underdeveloped markets, weak capital structures, poorly specified property rights, and high institutional uncertainty, created an environment where personal ties, *guanxi* networks, and inter-firm relationships enjoyed advantages in competition. We suggest that during this early phase, both opportunities and obstacles are clearly presented. Who can become an entrepreneur by creating and sustaining a new venture largely depends on whether he/she can find ways to secure financing and other necessary resources. The surveyed literature has suggested that adopting hybrid organizational forms and building network and *guanxi* ties with other firms or local governments are helpful means for entrepreneurs to gain resources and reduce uncertainty, leading to a better performance of entrepreneurial firms.

Phase III (T3) is defined as the "completion of market transition," a period when a rule-based and impersonalized transaction mode begins to dominate the market, similar to those in the more advanced economies. Markets and institutions are expected to be fully developed during this period. Leading local players would have developed technological capabilities, and the technical gap between local and multinational players would have been considerably narrowed. Customers in China will become sophisticated and diverse, requiring companies to provide innovative and differentiated products to meet their needs. At the same time, supporting and related industries, such as home-based suppliers, services, and intermediaries, will be well established. Drawing on the strategic management literature (Barney, 1991; Eisenhardt & Martin, 2000; Porter 1990, 1991; Teece, Pisano, & Shuen, 1997), we argue that during this phase, competitive advantages for exploring entrepreneurial opportunities will be more likely to be built around innovations (products, processes, and business models).

Table 4 Market transitions and entrepreneurship development in China.

Phase I: beginning of market transition (T1)	Phase II: early stage of market transition (T2)	Phase III: completion of market transition (T3)
Relationship-based, personalized structure	Late stage of relationship-based, personalized structure and early stage of rule-based, impersonal structure	Rule-based, impersonal structure
<i>Market transition</i>		
Markets not well developed (product, labor, and capital markets) Institutions not well developed (government, legal, and financial institutions) <i>Guanzi</i> /personal ties help reduce above uncertainties and secure resources	Markets and institutions still under development Absences of supporting and related industries Local customers lacking sophistication Local brand names and customer loyalty not established Price/volume/cost/imitation become the competition base	Markets and institutions well developed Local players develop technological capabilities Local supporting and related industries highly developed Local customers become sophisticated Firm resources/capabilities/innovation become the competition base
<i>Entrepreneurship development</i>		
Entrepreneurship in this stage are more likely to focus on finding ways to secure financing and other necessary resources for new ventures.	Entrepreneurship in this stage are more likely to focus on seeking opportunities to reduce cost so that new ventures may have advantage for competing on price/volume.	Entrepreneurship in this stage are more likely to involve with innovation (new products, services, and technology) and build competitive advantages.

Nevertheless, the beginning and ending stages described above do not capture the whole process of market transition, which could last for several decades. Drawing on relevant literature (Li & Yang, 2006; Peng & Zhou, 2005), we suggest an intermediate stage, Phase II (T2), defined as the “early stage of market transition,” when the relationship-based, personalized transaction structure is transforming into a more rule-based and impersonalized transaction mode. With China’s economy in this phase, the institutional infrastructures, customer sophistication, and home-based supporting industries (Porter, 1990) are still in transition, and will take time to be fully developed. During this early stage of transition, China lacks specialized local factor pools, such as specialized skills, capital, and infrastructures, to support its entrepreneurship development in regard to innovative capabilities. In addition, the insufficiency of demanding and sophisticated home customers discourages China’s local entrepreneurs and companies from innovating or differentiating their products and services. Moreover, the local suppliers or related industries have not been strong enough to confer potential advantages to other industries in China, and they therefore constrain the inputs and spillovers that are important and can be widely used to support the innovations from local entrepreneurs. Lastly, China’s large domestic market and the weak technological capabilities of local players during this stage offer a certain level of local rivalry with a focus on quantity rather than innovation.

Given the above analysis, it is not surprising that many local entrepreneurs focus on competing on price/volume during this stage of the market transition. On the one hand, the relationships/personal ties are no longer sufficient as the market competition intensifies. On the other hand, local firms have not yet developed necessary capabilities for innovation and product differentiation, even if they intend to do so. Therefore, local firms may have been stuck in seeking opportunities to compete on low price and large volume, or to imitate others’ products, without focusing on technology improvement.

We believe that this intermediate phase is distinct and should not be confused with the other two phases, either the beginning or the ending stage of the market transition. Unfortunately, the extant literature has not paid adequate attention to this important phase in the market transition process. In fact, we suggest that this stage is the essence of the market transition process, and there remain many intriguing issues to be explored in future research. For instance, during this stage, the lagged development of institutions and the presence of legal and regulatory ambiguities may lead to a chaotic environment where unethical behaviors, frauds, and agency problems are likely to emerge, constraining a healthy development of entrepreneurship (Ahlstrom, Young, & Nair, 2002; Dharwadkar et al., 2000; Zapalska & Edwards, 2001). In addition, considering the incremental and unbalanced nature of China’s market transition, industries and regions in China are also likely to evolve at a different pace. There will not only be questions about how long it will take for China’s transition to move from the intermediate Phase II to the Phase III as in more advanced economies, but also questions as to whether the market transition in China will eventually reach the last. In this market transition process, how would the role of venture capital evolve in the development of domestic entrepreneurship in China (Ahlstrom, Bruton, & Yeh, 2007; Wright, 2007)? These are all important questions that deserve more attention in future research.

Conclusion

This article provides an overview of the extant research on China-related entrepreneurship. We have reviewed 68 articles that were published in 11 leading English-language academic journals over 26 years (1980–2005). In the review, we first identified and summarized existing research issues, and then synthesized this diverse body of literature according to rigorous selection criteria. Furthermore, we proposed a coherent organizing framework to integrate the surveyed literature. On the basis of this framework (Figure 1), and integrating with research on market transitions, we proposed a three-stage model of market transitions into which different forms of entrepreneurship may fit. This provides some guidance to future entrepreneurship research in transition economies, suggesting that different opportunities and constraints exist in different stages of the market transition, and that entrepreneurs need to exploit them by adopting appropriate modes of organizing as the market transition evolves. The three-stage model of market transitions and entrepreneurship development builds on the theoretical insights from institutional economics, strategic management, and entrepreneurship. This evolutionary model, although developed mainly from our survey of the China-related literature, will not only contribute to our understanding of entrepreneurship development in China, but also have important implications for transition economies in general.

While the survey is intended to be helpful to researchers interested in entrepreneurship development in China, it is necessary to acknowledge the constraints of such an undertaking. First, exactly who are “entrepreneurs” and what comprises “entrepreneurial activities” in China are not that clear. This lack of clarity is partly reflected by our criteria for selecting articles for this survey. In order to provide a coherent review in this study, we decided to include research on entrepreneurship associated with Chinese citizens and domestic firms, but excluded studies focusing on foreign-invested firms in China, which could also be part of the entrepreneurship in China. Second, given the relative short term of entrepreneurship development in China, it is not surprising that limited research has focused exclusively on them. Many of the studies in our survey are comparative in nature and include non-entrepreneurial firms or individuals. Third, this review was limited to research published in 11 leading English-language academic journals in management and entrepreneurship, and did not include articles published in journals with an international business focus, or those journals focused on micro/psychological studies. Clearly, future work is needed to conduct a more comprehensive survey of important work appearing in other research journals and also books in both English and other languages (e.g. Chinese).

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