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### 创新的历史 (The History of Innovation): An Analysis of the Transformation of China's Entrepreneurial Orientation

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# 创新的历史 (The History of Innovation): An Analysis of the Transformation of China's Entrepreneurial Orientation

A Capstone Project Submitted in Partial Fulfillment of the Requirements of the Renée Crown University Honors Program at Syracuse University

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## **Abstract**

As entrepreneurship continues to play an increasingly significant role in the growth and success of businesses, nations, and the global economy, it is of the utmost importance to understand the factors that support or hinder entrepreneurial activity. China's historically tumultuous past provides an ideal platform on which entrepreneurship can be examined over a period of time and through a multitude of analytical lenses. With the establishment of a clear definition of Entrepreneurial Orientation (EO) and its application to China's past and present, it becomes clear that it is a combination of formal and informal institutions, as well as a multiplicity of economic, political, and environmental factors that allow for entrepreneurship to thrive. Given the aggregation of encouragement and impediment of entrepreneurship that has existed throughout the nation's history, this paper seeks to delineate how China's EO has transformed from the end of the Dynastical Era to today.

## **Executive Summary**

With the underlying goal of gaining a deeper understanding of the Entrepreneurial Orientation of China, this paper utilizes a number of analytical mechanisms to measure the encouragement or opposition of entrepreneurial activity. Beginning with the establishment of a clear definition of Entrepreneurial Orientation, followed by an explanation of the tools used to analyze China's entrepreneurial environment, the foundation of this paper provides the reader with the information necessary to comprehend both the historical and analytical components to follow. To create a comprehensive definition of Entrepreneurial Orientation, this paper pulls from a multitude of scholarly journals and works, including those of researchers specialized in the field of entrepreneurial and business-focused research. Similarly, by clearly explaining concepts of institutional theory and the Framework of Measuring Entrepreneurship, this paper deploys these as devices of measurement and analysis to ultimately quantify the Entrepreneurial Orientation of each period throughout China's past and present. The importance of understanding the context of a situation prior to evaluation, lends itself to the structure of the body of this narrative as it begins with a comprehensive discussion of China's tumultuous history. Through the delineation of monumental events, legislations, and reformations, one can begin to establish an understanding of how such events or institutions effected the nation's business environment and entrepreneurial arena. Spanning from the Imperial Era, specifically the period immediately prior to the fall of the Qing Dynasty in 1912, to modern day, this paper outlines each epoch and subsequently examines the entrepreneurial indicators within.

The significance of this paper lies in the increasing importance of entrepreneurship in modern society. Entrepreneurship presently drives national and global business environment as it both creates jobs and stimulates the global economy. Arguably, in order to compete in the global

market place, any company, organization, or nation must be entrepreneurially minded, prepared to take risks, and out-innovate their opposition. With little knowledge of the topic, it can be assumed that the traditional nature of China's pre-modern society was unsupportive of entrepreneurial activity and economic growth and thus resulted in an unfortunate national stagnation. Additionally, the nation's unwillingness to change, while its western counterparts evolved, stunted the institutional and philosophical growth of its Entrepreneurial Orientation. However, the evidence of the necessity for entrepreneurialism and innovation in the modern business world has caused China to respond by the reformation of their government, economy, and philosophical mindset towards individualism and creativity. Through the analysis of China's past and present Entrepreneurial Orientation, this paper rationalizes how the nation has transformed from one unsupportive and limiting of entrepreneurship to one of the most entrepreneurially minded countries in the world.

## Table of Contents

<u>Section</u>	<u>Page #</u>
Abstract...	i
Executive Summary...	ii
Chapter 1: Introduction...	1
Chapter 2: Entrepreneurial Orientation...	3
Chapter 3: China Prior to 1978...	9
Imperial China...	9
Republican China...	11
Communist China...	15
Chapter 4: EO Prior to 1978...	21
EO in Imperial China...	21
EO in Republican China...	22
EO in Communist China...	26
Chapter 5: China After 1978...	30
Reform and Opening...	30
Reform of SOEs...	33
Chapter 5: EO After 1978...	37
Chapter 6: Present EO...	44
Chapter 7: Conclusion...	53
Works Cited...	59

## **Chapter 1: Introduction**

In the increasingly entrepreneurial international marketplace, it is of utmost importance to understand the entrepreneurial abilities and goals of various nations. As China has historically been, and remains to be, an economic superpower, the introduction and development of entrepreneurial activities within the Chinese business environment are crucial to understand, as such change has the muscle to affect the global economy. As China has traditionally intertwined political and business behaviors, in order to examine the entrepreneurial activity of the country over the years, it must be done so in conjunction with an analysis of the nation's political and governmental situation. In unraveling the political reformations the country has experienced, this paper develops a deeper understanding of how the Chinese government interacts with business and how these interactions have changed overtime. As will be further developed throughout this paper, there are particular political environments that foster and allow for the existence of entrepreneurship. Similarly, by developing a clear and all-encompassing definition of entrepreneurial activities and positions, to be further known as Entrepreneurial Orientation, this analysis provides an outline of the transition of entrepreneurship in China in relation to its political situation and global interactions.

Entrepreneurial activity has become increasingly important in order to operate effectively as an entity or as an entire nation. As entrepreneurship drives job creation and economic growth, nations are encouraged to fund economic and political policies supportive of entrepreneurial activity. If China wishes to continue their reign as a global economic superpower they must continue to reinvent and revitalize their business processes in ways that cultivate a strong EO. This paper probes, and ultimately answers, the question of how the reform and opening of China's government, beginning in 1978, revolutionized the Entrepreneurial Orientation of the

nation, and what that means for the Chinese business environment of today and tomorrow. As China continues to move further into the global marketplace, it is crucial that an understanding of the past be established in order to master the present and prepare for the future. Additionally, the increased interconnectedness of the international business world highlights the importance of knowledge held by both Chinese and international entrepreneurs in order to utilize the resources and abilities that modern China now affords.

This paper pulls from multiple supportive sources of scholars and academics to appropriately understand the transformation that China's government and economy experienced, and to apply these changes to the country's Entrepreneurial Orientation. Past research pertaining to the country's traditional political and economic structures, allude to the inherent differences that can be seen following Reform and Opening in 1978. China's traditional and Confucian past are analyzed as both a reasoning behind the nation's previously successful economic history and their tumultuous journey to reach their current entrepreneurial situation. Similarly, in constructing a decisive definition of the most important term, Entrepreneurial Orientation, the research and findings of business scholars are necessary to provide a level of legitimacy. Further, by applying the definition of Entrepreneurial Orientation to various points of China's history, this paper allows for a clear understanding of the differences between previous and present practices illustrating potential drivers or inhibitors of entrepreneurial activity. Through the inclusion of recent cases focusing on modern entrepreneurial activities, a well-defined picture of China's present day Entrepreneurial Orientation is drawn allowing for an understanding of the current potential impact of entrepreneurship.



## Chapter 2: Entrepreneurial Orientation

Entrepreneurial Orientation (EO) has, in recent years, developed as a term used frequently within business entities and systems. Typically applied to individual companies, but applicable in many cases to nations and other economic entities, Entrepreneurial Orientation has become a form of measurement of entrepreneurial activity and innovation. In order to grasp its significance and breadth of application, one must first construct a clear definition.

First, it is necessary to differentiate entrepreneurship and Entrepreneurial Orientation. As defined by G.T. Lumpkin and Gregory Dess in their article *Clarifying the Entrepreneurial Orientation Construct and Linking It to Performance*, “the essential act of entrepreneurship is new entry... that can be accomplished by entering new or established markets with new or existing goods or services” (1996). Entrepreneurship is the act or practice of participating in an entrepreneurial activity such as entering a new market or producing a new product or service. Concurrently, “EO refers to the processes, practices, and decision-making activities that lead to new entry”, in that, “new entry explains what entrepreneurship consists of, and entrepreneurial orientation describes how new entry is undertaken” (Lumpkin & Dess, 1996). Entrepreneurship is the what, while EO is the how. EO refers most directly to the steps or actions taken in order to achieve new entry or perform an entrepreneurial activity. Pictorially, EO is the bridge that leads to new unexplored territory, or entrepreneurship.

There are many measurable components of entrepreneurship that are arguably influenced by EO, creating a cause and effect like relationship between the two terms. Similarly to the “what” and “how” association delineated above, EO would be considered the cause and entrepreneurship the effect, as the EO of a country (i.e. it’s ability and inclination to act entrepreneurially) would result in varying levels of entrepreneurial activity. Thus, a Framework for Measuring

Entrepreneurship, established through combining concepts developed by the Organization for Economic Cooperation and Development (OECD) can be roughly applied across China’s EO (Ahmad & Hoffman, 2007). The framework delineates that “Determinants” effect “Entrepreneurial Performance” which then in turn produces an “Impact”. Determinants are factors that influence entrepreneurship and can be loosely seen as components of EO (Ahmad & Hoffman, 2007). These factors include regulatory framework, R&D and technology, entrepreneurial capabilities, culture, access to finance, and market conditions. These determinants, impacted by numerous components, directly result in the encouragement or impetus of entrepreneurial activity. For example, in a situation in which there are high administrative barriers to entry, the regulatory framework is not supportive of entrepreneurship and thus will likely impede entrepreneurial performance, ultimately having a negative economic impact on the firm or nation. Figure 1 below depicts the interconnection between the determinants, entrepreneurial performance, and impact.

Figure 1: The OECD/EUROSTAT framework for Entrepreneurship indicators (Ahmad & Hoffman, 2007)

Determinants						Entrepreneurial Performance	Impact
Regulatory Framework	R&D Technology	Entrepreneurial Capabilities	Culture	Access to Finance	Market Conditions	Firm	Job Creation
Administrative burdens of entry	R&D Investment	Training and experience of entrepreneurs	Risk Attitude of Society	Access to debt financing	Anti-Trust Laws	Employment	Economic Growth
Administrative burdens of growth	University/ Industry Interface	Business and Entrepreneurial Skills	Attitude Towards Entrepreneurs	Business Angels	Corruption	Wealth	Poverty Reduction
Bankruptcy Regulations	Technology Diffusion	Entrepreneurial Infrastructure	Desire for Business Ownership	Access to VC	Access to Domestic Market		
Safety, Health, and Environmental Regulations	Technological Cooperation Between Firms	Immigration	Education (Mindset)	Access to Other Types of Equity	Access to Foreign Markets		
Product Regulation	Internet Access			Stock Markets	Degree of Public Involvement		
Labor Market Regulation	Patent Systems and Standards				Public Procurement		
Court & Legal Framework							
Social and Health Security							

The processes that fall beneath the umbrella of EO are what allow an individual, business, or any moneymaking entity to compete or differentiate themselves from other competitive forces and ultimately achieve new entry. In this sense, and according to the scholarly article *An Investigation of Entrepreneurial Orientation and Organizational Strategies in China*, EO can also be mobilized as a strategic orientation (Z. Tang, 2008). The group of Ph.D. candidates that compiled the above-mentioned literature suggests, “EO reflects how firms compete instead of what they do” (Z. Tang, 2008). EO is strategic in nature in that it refers to the entrepreneurially focused plans an entity deploys in order to achieve new entry. One must strategically build the bridge in order to explore an uncharted territory. Similar definitions of EO delineate the components of a highly entrepreneurially oriented firm as innovative, risk-taking, and proactive (J. Tang, 2008). These components refer to the “strategic posture” of a firm, rather than the outcomes of said strategic posture (J. Tang, 2008). Thus, the assertion that EO can be noted as a strategic orientation is applicable in this context. Further, the article stated its own definition of EO, in majority pertaining to a strategic application of the term:

Defined as the management’s inclination to take business-related risks, to favor change and innovation in order to obtain a competitive advantage, and to compete aggressively with other firms, EO helps firms to gather information on external opportunities, identify and explore these opportunities, and better position themselves in market competition. EO facilitates performance by enabling firms to develop new products, services, and processes; achieve first-mover advantage; and initiate changes for others to follow (Z. Tang, 2008).

The definition of EO that this paper will use combines both the strategic and actionable components of the above descriptions. Moving forward, EO will refer to:

An organization or nation's ability and willingness to partake in, or participation in, innovative, risky, competitively aggressive, or entrepreneurial activities with the ultimate goal of new entry, market disruption, or product or service evolution

An organization or nation with a comparatively high EO would be discernible by strategic initiatives towards market penetration, the development of a new product or service, or similar factors indicative of entrepreneurial activity (i.e. a regulatory structure that encourages innovation). Contrarily, an entity with no plan or mode of innovation, growth, or newness would be regarded as one with less EO.

The elements necessary to achieve a high EO, or participate in entrepreneurial activities, require certain environments of political or regulatory nature. These necessities are indicative of the concept of institutional theory or the idea that institutions, i.e. formal rules, regulations, as well as informal norms, values, etc., play a compulsory role in the entrepreneurial process. Institutional theory highlights the existence of formal and informal constraints that effect firm behavior and economic processes and can thus be used as a mechanism to measure a country's EO (M. Peng, 2016). For example, economies with well-established legal systems, which contain strong sets of judicial standards and processes regarding intellectual and physical property protection, allow businesses to participate in entrepreneurial ventures with limited fear of theft or collusion. A strong, non-corrupt, legal system allows for the assurance of protection of property rights regardless of organizational size or political allegiance. It is for this reason that the average firm size in countries with insecure property rights is smaller than an equivalent in a nation with established regulation regarding property ownership (M. Peng, 2016). Consequently, business environments within nations marred by corruption and government-market entanglement, are less conducive to entrepreneurship and thus EO is marginally lower. This is further exacerbated

by the prioritization of government-controlled programs over their private sector competitors. This type of environment eliminates opportunities for small or privately owned companies to pursue innovative ventures.

Broadly, institutional theory can be separated into two subsections: formal institutions and informal institutions. These subsections can be further divided into three components, regulative, normative, and cognitive – regulative representing the formal institutions, and normative and cognitive representing the informal. The regulative pillar of institutional theory includes official rules and regulations supported through governmental legislation and agreed upon standards such as statutory intellectual property rights. For example, governments are responsible for establishing new tax laws. As outlined by Mike Peng in *Global*<sup>3</sup>, “it is the coercive power of the government’s tax laws that forms the regulative pillar and compel many individuals to pay taxes” (2016). The normative pillar is representative of various social norms and values that all members of a society are obligated to follow. The normative components of institutional theory can be supportive or contrasting to the regulative components. Peng’s example of the normative pillar involves the social norm of silence that propelled numerous Enron employees to remain silent regarding their knowledge of the improper business happenings occurring within the firm (2016). Although this practice of remaining silent did not support the regulative pillar of condemning illegal practices, it was obliged by many as a social norm. Lastly, the cognitive pillar is more individualistic than the first two components of institutional theory as it represents the personal beliefs and actions (Bruton, Ahlstrom, & Li, 2010). Continuing with his Enron example, Peng described the whistleblowers in the scandal as possessing a personal belief opposite to the social norm, speaking out against the company’s wrongdoings.

Figure 2 illustrates the construction of institutional theory through a visualization of its numerous components.

*Figure 2: Diagram of Institutional Theory*

<b>Institutional Theory</b>		
<u>Formal Institutions</u>	<u>Informal Institutions</u>	
<i>Regulative</i>	<i>Normative</i>	<i>Cognitive</i>
<ul style="list-style-type: none"> <li>• Government legislation</li> <li>• Industrial agreements</li> <li>• Formalized standards</li> </ul>	<ul style="list-style-type: none"> <li>• Values               <ul style="list-style-type: none"> <li>○ What is considered proper</li> </ul> </li> <li>• Norms               <ul style="list-style-type: none"> <li>○ How things are done</li> </ul> </li> <li>• Social obligations</li> </ul>	<ul style="list-style-type: none"> <li>• Culture</li> <li>• Language</li> <li>• Individual behaviors</li> </ul>

One academic argued that, “When institutions provide honest norms, secure property rights, a fair judicial system, contract enforcement and effective limits on the government's ability to transfer wealth, creative individuals are more likely to engage in the creation of new wealth through (productive) entrepreneurship” (Avnimelech, Zelekha, & Sharabi, 2014). Thus, legitimate institutions, both formal and informal result in an increased EO.

The application of institutional theory throughout China’s history will allow for a greater understanding, and analysis, of why EO fluctuated so significantly. As will be outlined in the pages to follow, the entwinement of political and business practices can either be detrimental to or supportive of the entrepreneurial activity of businesses and EO of a nation. The detriment caused by collusion between policymakers and business-owners, government kickbacks, and corporate bribes is suggestive of the belated emergence of entrepreneurship in China. However, both the remnants of traditional institutions and modern advancements present in the evolving nation are potentially encouraging of an increased EO.

### **Chapter 3: China Prior to 1978**

Stated in an elementary fashion, China's rich history prior to 1978 can be divided into three periods: Imperial China, Republican China, and the Communist Period. In order to gain a complete comprehension of China's present situation in regards to politics, economics, and ultimately, EO, one must first understand the historical context that has led to this point. Through the analysis of historical events as well as the institutional structures that existed during such times, a vibrant image of the nation's previous EO will be painted.

#### *Imperial China*

Imperial China, referring to the period before the fall of the Qing Dynasty in 1912, was marked by culturalism. Culturalism, although not decisively defined, represents a philosophy or way of thinking that is deeply rooted in tradition and history. As Confucianism was more than a faith and seen as a source of national unity, this period in China's history lacked any solid politically centered nationalism. James Townsend argued "China's early identity did not revolve around a political entity but around culture and likewise tradition" (Toth, 2016a). Thus, Confucianism both served as the central mode of governance and created a "culture-centric nationalism" that permeated throughout the country. By enforcing the morals and values of Confucian belief, pre-modern China was built on a foundation of faith rather than a political agenda.

China's unity through cultural identity and reliance on Confucian values allowed the nation to prosper in ways that the western world had not yet discovered. For example, the cultivation of Confucian principles created an environment in which philosophical thought and cognitive institutions were valued above the construction of militant forces. In pre-modern times,

China held over 1/3 of the world's GDP, making them far more advanced than their western counterparts. In 1500 China held 25% of the world's GDP, increasing to 33% by 1820 (Maddison, 2007). This relative success of the country was in part due to its sophistication of rich schools of philosophical thought and the development of institutions of cognitive learning (Toth, 2016a). The formalized institutions present in Imperial China were those that perpetuated the morals and values the country lived by. As Confucianism was based on five key relationships, the importance of familial ties and kinship was deeply imbedded into the nation's culture and. This importance of kinship and reciprocal relationships created informal institutions that allowed for economic prosperity and supported trade and business transactions.

However, the prioritization of culturalism created a lack of nationalism in times of war and conflict. The early economic success of China was not long lasting as, although they had strong philosophical institutions of learning and faith, the country lacked solid political and military leadership. Without the political backing of a sturdy system of government, or even a durable army, China stood little chance against the slowly revolutionizing western hemisphere. As China was succeeding in the economic arena, the west was gearing up to overtake the east with militant force.

In the decades leading up to the end of the dynastical era of China, the country was ridden with war as western forces confronted them during the Opium Wars between 1839 and 1842 and then again between 1856 and 1860. This period of western occupation and annexation of China was the beginning of what was later referred to as the Century of Humiliation. This "century" – actually lasting 109 years – was a period marked with monumental defeat by the British and continual detriment of the nation (Schiavenza, 2013). The embarrassing losses of this period were not solely felt in the political sense, but also reached into the economic sphere,



largely influencing the nation's business environment. During the First Opium War in 1839, the nation's GDP dropped to a narrow 5% where it remained until after Reform and Opening (Chan, 2016). Insufficient military support partnered with the opioid epidemic resulted in China's surrendering of Hong Kong to Britain and the concession of the Treaty of Nanjing. With the knowledge that China was in no position to defend their dwindling trading power, Britain and France joined forces in the occupation of the floundering nation during the Second Opium War. Quickly followed by the First Sino-Japanese War, the continual occupation of China by foreign militant forces signaled a necessary adjustment in the nation's approach to political organization. The call for nationalism, partnered with their approaching downfall, awoke China to the apparent lack of governmental structure and the need for unification of the nation. Discontent with imperialism and foreign intervention ultimately led to the downfall of a once well-respected system. The collapse of the Qing Dynasty left the country broken, with a lack of nationalism, and a wallowing political system.

### *Republican China*

As the Qing Dynasty collapsed, a new era began as the Republic of China was formed under Sun Yat-sen on January 1, 1912. As the head of the Chinese Nationalist Party (KMT), Sun, known as the "Father of Modern China", responded to the nation's cry for strong leadership and nationalism with just that. Sun advocated for a stronger sense of nationalism than the country had ever experienced. The Qing Dynasty left the country disconnected and governed by provincial warlords supported and controlled by foreign powers. As imperialism had left the country divided by western forces such as Britain, France, and Germany, there was limited sense of unification under a national government. Sun saw great benefit in uniting the nation under a

single government and eliminating the influence of the “foreign devils” that sought to divide China.

However, the nationalism that Sun promised did little good as the country remained under attack by western forces and the threat of Japanese invasion steadily loomed. Although Sun was considered a key revolutionary in the end of the Imperial Era, the young government he established struggled to gain support from the divided nation as the Chinese Communist Party simultaneously fought for recognition. As the leader of the Nationalist Party, Sun had the goal of establishing an army capable of defeating the provincial warlords that dominated the country. He appealed to western governments for monetary support but was refused by most due to his intentions of unification. The sole nation willing to assist the young government was the Soviet Union. Sun resigned as Provisional President of the Republic of China just three months after his accession to power. Sun was succeeded by Yuan Shikai, who, much like Sun, was viewed as having played a key role in the eradication of the Qing Dynasty. However, Yuan spent a majority of his presidency attempting to strip the KMT of the little power they had gained and working to protect his self-proclaimed title of emperor. Fearing the approaching downfall of the KMT, Sun resurfaced as the party’s leader in 1923.

The continually divided government failed to institute any formal reforms at the benefit of regular civilians. Provincial and local warlords remained at large as the national government struggled to unify. The period between 1911 and 1927 was marked by an incessant turbulence as the establishment of a cohesive and united government seemed impossible. Continued calls for change rang out, culminating in the May Fourth Movement in 1919. This demonstration by over 3,000 Chinese college students highlighted the nation’s damnation of traditional values and their growing desire for modern institutions (The Editors of Encyclopædia

Britannica, 2017). The May Fourth Movement signified a national need for unification. Sun died in 1925, thirteen years after his accession to power, and left the nation in a continuation of the turmoil he had entered it in (BBC News, 2016).

Following Sun's death, military leader Chiang Kai-shek succeeded as the head of the party. In hand with Nationalist beliefs, Chiang condemned communist ideals and continually advocated for Chinese unification under the KMT. Chiang, often referred to as "Generalissimo", led a mission to take down the nation's remaining warlords and imperialists, successfully defeating 34 warlords in just 6 months. It seemed as if a new era was beginning as Chiang's government instituted modernization programs using American and western technologies. However, civil dispute between the Nationalists and Communists continued as the two parties continually launched military and ideological attacks against the other in attempt to take total control. The Communist Party (CCP) gained support from peasants as they waged wars against landlords that charged high and unreasonable rents. Both guerilla and systematic techniques were orchestrated in efforts to be the victor, all the while losing thousands of civilians. As the battle for control of the nation continued, Japan extended their economic stake in northern China. In September of 1931, Japan attacked the region of Manchuria, seizing control and ultimately instituting a puppet government. Japanese invasion, although reason to unify in resistance, increased civil dispute between the KMT and CCP. Chiang was strongly criticized when he initially refused to partner with the Communists in resistance of Japanese. His reluctance to defend the country against increased occupation lost Chiang and the Nationalist Party much of the nation's support. However, immense anti-Japanese sentiment and attacks on Shanghai, Nanking, and Chungking forced the two parties to band together to fight their eastern neighbor. Although Chiang publically said, "the whole nation must rise as one man and fight these

Japanese bandits”, tension remained high between Nationalists and Communists, continually impairing China’s chances at victory.

It became apparent in December of 1941 that Japan was winning the war. However, United States involvement following the bombing of Pearl Harbor gave China a second opportunity at survival. The US government began to pour money, supplies, and support into country, as they feared Chinese defeat would result in Japanese triumph in the West. Requests for money and supplies continually flew out of Chiang’s government, highlighting the corruption and embezzlement that was occurring within. The corruption perpetuated through all legs of the government, as military officers were similarly accused of corrupt and unlawful acts. However, Chiang threatened to sign a treaty with Japan if the US did not continue to show their support through monetary and military aid, further propagating and allowing corrupt practices.

Although the Chinese Nationalist Party and Chinese Communist Party united momentarily to combat the Japanese, following the end of the Second World War, civil war between the two resumed. During this period, the nation was once again torn apart as the two parties fought for total control. The CCP wrecked havoc in China’s countryside as they unleashed land reforms and revolutions against landlords. Meanwhile, the nation’s cities faced severe financial crises as Chiang’s government failed to stabilize currency. The United States’ Silver Purchase Act of 1934 caused China to lose a large amount of its silver, resulting in outstanding deflation and a dramatic increase in the cost of exports. Although China attempted to negotiate with the US in hopes of suspending or terminating the purchase of Chinese silver, the nation ultimately abandoned the silver standard in 1935 (Randall, 1936). The effect of this foreign legislation coupled with Chiang’s decision to print money in preparation for a war ultimately played a major role in the government’s downfall. The chaos within the currency

system abetted black market trading and corruption. One Chinese civilian was quoted as saying, “only when one has food and clothing will they have ethics” (Williams, 1989). This proverbial saying highlights the deteriorated environment China’s everlasting civil war created in both an economical and personal sense. As much of the nation’s detriment was exacerbated by Nationalist leadership, the CCP ultimately emerged as victors.

By November of 1948, the Communist Party had won control of the north. In less than a year, Chiang and his nationalist following resigned and retreated to Taiwan. They took with them the nation’s monetary reserve and much of the country’s valuable art and history. Mao Zedong emerged as the head of the Chinese Communist Party and formed the People’s Republic of China on October 1, 1949. Chairman Mao promised change, movement forward, and revolution from old China and united the nation under communist ideals.

### *Communist China*

As Mao entered as the Chairman of the CCP, the nation was reeling from the devastation suffered from the years of civil war and foreign invasion experienced across the decades prior. The nation was bankrupt and desolate, but united and invigorated by the promises brought by Mao’s victory. Mao’s goal was to return the country to the superstardom it had once experienced. He planned to do such through the institution of a massive national reform. The basis of his reform was government control over, in essence, everything. He established government institutions at all levels throughout society in efforts to perpetuate the CCP agenda down the ranks of the party to the local levels. An initial policy implemented was the socialization of agriculture through the implementation of cooperatives. Families were told to combine or pool their farms, as the party believed this would lead to an increase in manpower

and production. By 1955, nearly 2/3 of China's peasant population had joined cooperatives (Vecchione, 1994).

Mao instituted his first five-year plan in 1953. This strategy was modeled after reforms deployed in Soviet Russia and aimed to increase industrial productivity as well as central control over production planning. A main objective of the plan was aimed at increasing industrial productivity throughout the country, specifically increasing steel output. The government's movement towards socialization and state-control progressed as a program of collectivization was deployed. Farm output was now under government control as no property was considered privately owned. In 1956, Mao launched a campaign known as "Letting 100 Flowers Bloom". Under this policy, civilians were encouraged to openly share their opinions regarding the communist agenda. However, this resulted in harsh criticisms of the CCP and Mao himself. Mao quickly redacted this program. He referred to those who spoke out as enemies and formally criminalized opposition of the government. Following the campaign Mao estimated that roughly 10% of people were rightists and were thus condemned or sent to work in the nation's countryside (Vecchione, 1994). This movement was the first of many to silence China's intellectuals and censure independent thought.

Mao's goal of building a socialist economy faster than Russia appeared to be proceeding successfully as industrial output doubled in five years. By 1958, the state sector accounted for 89.17% of industrial output and owned all property, land, etc. in the country (Nie, 2005). Although the first-five year plan was successful in its goals of growing industry outputs, it was flawed in its exacerbation of the gap between the rural and urban sectors of the country. At the same time that money, including a \$300 million loan from Soviet Russia, was being poured into industrial expansion, high expectations were placed on agricultural producers. As government

attention was focused on expanding industry, little consideration was given to the failing agriculture sector, resulting in a further deficit in farming productivity. Following the conclusion of the first five-year plan, the rift between Chinese industry and agriculture had grown wide, resulting in an increase in starving civilians and overarching poverty.

In 1958, Mao released his second five-year plan. This agenda, commonly referred to as the Great Leap Forward, was structured on the simultaneous growth of industry and agriculture, an effort to undo the gap that had grown across the past five years. Nearly identical to the “kolkhozes” instituted in Stalin’s Russia, Mao collectivized the farming sector by creating communes. People were regimented to either work in a farming commune or a steel producing entity. However, this plan only perpetuated the damage previously done, as the implementation of impossible quotas and expectations on the people of the communes lead to the further degradation of the social welfare of peasants (Trueman, 2015). The expectation that both industry and agriculture could grow simultaneously was flawed as agricultural workers were transplanted into industry reducing manpower drastically. However, in fear of disappointing Mao, farmers inflated production figures. This resulted in the party collecting more grain than could be afforded, leaving peasants to starve. Further exacerbating the food production deficit, Mao’s Sparrow Campaign of 1958, ordering the extermination of all sparrows, resulted in a massive locust infestation. Mao’s anticipated collaboration between agriculture and industry failed to culminate as under the Great Leap Forward the nation’s income decreased by 7% (Koveos, 2018). As farming collectives were unable to churn out the necessary quotas inflicted upon them, starvation began to affect far more than farmer peasants and quickly found its way to urban industrial workers. The Great Leap Forward is believed to have killed at least 45 million people. The high number of deaths is credited to a combination of starvation and systematic

violence that stemmed from the failure of Mao's second five-year plan (O'Neill, 2010). In acceptance that his Great Leap Forward was, in actuality, many steps back, Mao abandoned his ill-plotted strategy within two years of its implementation.

In concurrence with increased government control seen in the collectivization of the agriculture industry and centralization of steel production, a similar control was taken over nearly all other sectors within China. The concept of total centralization, modeled from the Soviet Union resulted in the establishment of major governmentally owned entities in nearly all industries. These State-Owned Enterprises, or SOEs, began to take hold of China's business environment. These colossal, government-funded entities were, in theory, necessary in order to kick-start the economy that had depleted to virtually nothing. These organizations were led by members, or appointees, of the CCP and, through their day-to-day business practices, perpetuated the party's agenda. One scholar concluded that SOEs were successful in revitalizing the nation's economy as, "at a time when China was poor and devastated by a long period of war and underdevelopment, state enterprises were the main form of economic organization that built China's economy" (Gang, 2013). Similarly, the funding of SOEs and other infrastructure-centered projects was believed to allow China "to enter into competition with other globally scaled economies, and take advantage of the industrial potential the country harbored" (Toth, 2016b). As one of the primary objectives of Mao's Great Leap Forward was to grow industry to exceed that of the UK, the consolidation and enlargement of state-owned collectives was a key component. Although a massive failure, the Great Leap Forward was arguably salvaged by tremendous economic growth of SOEs.

In further pursuance of a communist state, in August of 1966, Mao introduced his seemingly most radical national reformation. The third five-year plan called for a militarization



of the country in preparation for wars, natural disasters, and other potential catastrophes. Additionally, having felt threatened by advancement of other CCP officials, in 1966 Mao began the Cultural Revolution. In support of the belief that communism equated to constant revolution, Mao called on young people all over the country to rise up and rebel against local party officials. Party members were condemned at all levels. Deng Xiaoping, the CCP's Secretary General was exiled. Liu Shaoqi, Mao's own Vice Chairman, was beaten and jailed. It was estimated that at least one million people were killed during the Cultural Revolution. The Cultural Revolution was said to be a calling of "the nation's youth to purge the impure elements of Chinese society and revive the revolutionary spirit" as Mao believed the current party leaders were moving the country in the wrong direction (History.com Staff, 2009). Mao encouraged China's youth to dispel western ideas and condemn the "four olds": old ideas, old culture, old customs, and old habits (Vecchione, 1994). In September of 1966, schools did not open for the year. With academic institutions closed, educators and intellectuals were expelled in order to solidify the righteousness of the government and Mao himself. Red guards, or those youths considered most revolutionary, were encouraged to travel and gain true "revolutionary experience".

In July of 1968, Mao ordered the red guards disband and return to school. Many former rebels were sent to the countryside to be educated by peasants rather than return to the formal institutions they had previously attended. City people were sent to the countryside to learn farming and agriculture techniques. This had a lasting residual affect on the nation's overall level of education, leaving a large portion of China's population uneducated and creating a countrywide academic stagnation. Coinciding with the termination of the red guards, exiled party members were reinstated, rehabilitated, and returned to their positions. The nation appeared to be mending the holes created in the prior years. In February of 1972, President Richard Nixon

visited Beijing. As the first US president to visit Mao's country, this signaled China's opening to the world and a willingness to become an active player in global politics, something the country had not yet seen under the communist regime.

China under Mao was marked with reform and revolution. However, although aimed towards forward motion, the policies that emerged during the Communist Era were quite detrimental to the nation. The establishment of a strong political system showed hope of evolution and growth, however, as policies supported communist ideals, they did little to revitalize the country. The failed execution of his first two five-year plans left the country further impoverished with all sectors of the nation's industries under government control. Similarly, by condemning intellectuals, seizing control of the nation's education system, and subsequently the nation's youth, the Cultural Revolution squandered any hope of reversal. The country's SOEs were seemingly the only successful component that manifested under Mao's control. With the goal of mass centralization, the growth of governmentally funded organizations was effective. However, the magnitude of these state entities created a residual affect upon private sector growth that remains in present day China.

## Chapter 4: EO Prior to 1978

As the definition of Entrepreneurial Orientation remains as one's ability and willingness to participate in entrepreneurial activities, it is important to understand that during the dynastic and pre-modern periods in Chinese history, inability outweighed will. As supported by both institutional theory and the framework for measurement of entrepreneurship, there are certain components that either enable or prevent entrepreneurial capabilities. The business environment in China prior to 1978 was incredibly lackluster and not conducive to private business. Ranging from a lack of support from the weak political structure and no formal and informal institutions to the criminalization of private ownership, entrepreneurship and overall business was significantly limited.

### *EO in Imperial China*

As outlined above, Imperial China was a period marked by culturalism. Although not dominant, there were components within Chinese tradition that created an environment conducive to business and trade. These included the value placed in the Confucian ideals of relationships. As Imperial China was flawed in their lack of formal institutions supportive of business, the power placed on relational ties served as a valuable informal institution. A social norm or value of strong and weak tie relationships generated an environment in which formal regulation was not always necessary. For example, a lack of enforceable property rights was manageable as commitments between two parties were more often than not obliged due to the importance of maintaining relationships. Further, one scholar argued that networks within society, due to the bonds created by Confucianism, "...may serve as third-party enforcers by rewarding trustworthy behavior with good reputation and status and sanctioning defection with

bad reputation and perhaps isolation” (Y. Peng, 2004). This is exemplified through the economic success experienced by China in the 14<sup>th</sup> through mid-19<sup>th</sup> centuries.

However, the nation’s reliance on Confucian values created a absence of national governance and formalized political structure in times of war. The war that raged on through the mid 1800’s signified the country’s need for a strong and central government. Although the pre-modern period cultivated a cultural inclination toward education and imagination, the nation’s regulatory framework lacked organization regarding product creation and market structure. In theory, the informal institutions present in Imperial China supported a strong EO, however, the political and economic climate of the period was occupied with war and unable to establish the remaining determinants necessary to encourage entrepreneurial activity.

### *EO in Republican China*

Following the fall of the Qing Dynasty, the nation was left divided and controlled by provincial warlords. These warlords controlled the nation’s land, demanding high rent from civilians and denying ownership to those who lived upon it, thus private-ownership was nonexistent. As the nation’s government was distracted by foreign occupation and civil disputes the establishment of formal property rights was neglected by legislative bodies (Zhang, 2008). In Sun Yat-Sen’s failure to unite the nation under a singular government, he failed to build a formal institution conducive to regulation of private ownership. With a lack of formal regulative to oversee property transactions, it was left to informal norms to regulate. The diminutive remnants of the dynastical era allowed for the periodic transfer of land due to inheritance or social obligation. However, the coinciding weakness of a developing formal institution and the dismantling of informal institutions disallowed for private ownership all together. The lack of

political infrastructure dichotomously meant both that the government had no control over private sector business operations and failed to support entrepreneurial growth. As earlier enumerated, in order to participate in entrepreneurial activities, and ultimately have a high EO, a business or organization must exist within an environment conducive to such. In the Republican Period, the absence of formal and informal structures created a country that lacked nearly all factors necessary for a successful entrepreneurial venture, as business was not supported by regulatory framework, research and development, or a culture favorable to creation.

It was not until the nation unified under the Nationalist Party in 1927 that improvement was seen in repair of the country's pitiful institutional structure. Under Chiang Kai-shek, the nation was successful in ridding the country of the remaining warlords. The land controlled by these warlords was now considered to belong to the Nationalist Party as the prohibition of private property continued. Although the nation was formally unified under the KMT, the continued disputes between the communists perpetuated the nation's division existent prior to 1927. Government efforts towards modernization seemed marginal to the wars that waged on between the competing parties. In 1930 a Civil Code was adopted regarding the "Rights to Things". This piece of legislation was intended to generate civil law regulation regarding the ownership of private property. However, due to Japanese intervention this code was never fully implemented (Zhang, 2008).

One progressive component of this period was the major growth and expansion of westernization in Shanghai that allowed the city to prosper, providing China with the economy necessary to survive. In the early 1930s, Shanghai was viewed as a capitalist paradise. Often referred to as the "Paris of the Orient", the area was established as a major trading port between the Chinese and the west (Williams, 1989). Although contrary to the anti-imperialist attitude of

the Nationalist Party, foreign occupancy in the flourishing city was a central driver for the national economy as modern technologies and ideals flowed into the country. This provided China with access to foreign markets and modern technology, two key determinants in entrepreneurial performance. Unlike the vast majority of the nation, Shanghai placed great value in R&D as they employed western technologies in manufacturing and other industrial trades. Advanced technologies allowed for the cultivation of new products and ideas. According to one scholar, “By the early 1930s, about half of China’s modern manufacturing companies (1,200 out of 2,435) were located in Shanghai”, employing over 43% of China’s industrial workers producing more than 50% of China’s total industrial products (Cheng, 2012). Additionally, Shanghai’s booming economy created a demand for banks and access to capital. By 1935, over 80% of China’s largest banks were located in Shanghai (Cheng, 2012). The geographic ease of obtaining capital and accessing foreign markets, as well as multiple other factors, increased the country’s EO as predicated by the Framework of Measuring Entrepreneurship. Although the nation’s economy was regionally segmented given the nature of business in the inland versus the coastal region, China’s overall economy benefited greatly due to Shanghai’s success.

However, Shanghai’s glory was relatively short lived as Japanese invasion in 1937 extinguished the capitalist society and rid the region of foreign investment and inhabitation. China’s entrance into World War II paired with the de-globalization of their primary port left the nation’s economy depleted. Without foreign stimulation and employment of capitalist ideals, the factors that had previously encouraged entrepreneurial activity were fleeting. Further, as China’s involvement in the war deepened following increased support from the United States, corruption within the Nationalist regime impeded economic growth. As Chiang Kai-shek and his constituents funneled financial aid from the US to their personal pockets, the country saw an

increase in poverty and a decrease in economic activity. In effect, the corrupt dealings of the Nationalist Party weakened the institutional structure within the country. Entrepreneurs, already incapacitated by the lack of property rights, were discouraged further by the high cost of doing business that accompanies a corrupt regulatory institution. The corruption that ran through the Nationalist Party trickled down to local and pedestrian levels as China's unstable currency system abetted black market trade. The negative impact of corruption on China's economy was felt as entrepreneurial activity is impeded by corruption as it leads to increased transaction costs, a lack of trust in institutional systems, and an increase in regulatory restrictions (Avnimelech, Zelekha, & Sharabi, 2014).

Through the 1940s, an ineffectual government continually tarnished China's market conditions. Republican China was a turbulent period marked by minimal entrepreneurial growth throughout the country. Aside from the capitalist reprieve seen in Shanghai, the nation overall remained in internal conflict as the KMT and CCP continually condemned the other, thus stunting any efforts towards widely spread modernization and progression. Scholar Angus Maddison stated that the Republican Era "did little to provide a new impetus for economic change... The limited modernization of the economy came in the treaty ports [Shanghai] and in Manchuria, where foreign capitalist enterprise penetrated and the sprouts of Chinese capitalism burgeoned" (2007). Once again, China's formal institutions failed to engage the qualities necessary to encourage entrepreneurship as the nation continued to fall further behind in the global economy and their EO continued to suffer.

## *EO in Communist China*

Entrepreneurial Orientation under Mao was unlike anything the nation had seen before. Though the rise of the Communist Party signaled a revolution, the country saw radical deterioration in the business environment due to the multitude of national reforms implemented over the span of more than thirty years. Even as the nation contained a strong regulative system, which, in theory, would allow for the pursuance of entrepreneurial activity, entrepreneurship was harshly limited by the omnipresent control the CCP held over the national economy. As the Communist Party ascended as China's ultimate power, "landlords, national, and foreign capitalist interests were eliminated by expropriation of private property" (Maddison, 2007). This extinguishment of private-property squandered all private sector business – limiting entrepreneurial orientation to that produced by the Communist Party and their SOEs. In similar condemnation of capitalist morals, the CCP isolated China from the rest of the world, ceasing international treaties and closing trading ports.

Mao's initial five-year plan, instituted in 1953, was the beginning of the government's complete control over production – both industrial and agricultural. Through collectivization and socialization, the CCP monopolized rural China. The institution of farming collectives and local steel production areas aimed to magnify the nation's grain and steel output. The centralization of this process resulted in state-ownership of all products. SOEs rose quickly, accounting for nearly 90% of industrial output within 10 years of Mao's ascension to power, representing of the immense influence the governing party held over China's business environment. "In 1952, industry's share of GDP was one-sixth of that in agriculture. By 1978, it was bigger than the agricultural" (Maddison, 2007). With no ability to compete with the competitive pricing of the massive conglomerate of state entities, the private sector accounted for less than 25% of the



nation's GDP with little hope of growing (Yang, 2013). Further, as China's SOEs dominated the economic marketplace, there were limited incentives for a firm to act entrepreneurially. A culture barring of entrepreneurs was perpetuated through the CCP through the exploitation of their SOEs. SOEs found entrepreneurial activities unnecessary as they were unmatched by private firms. Simultaneously, private enterprises lacked both legal legitimization and support from regulatory bodies due to the harsh unevenness of the nation's business environment.

Mao's failed institution of the "Letting 100 Flowers Bloom" initiative in 1956, and the brutal recourse for those who spoke against the CCP, was an ominous foreshadow of the Cultural Revolution unleashed upon the country in 1966. Through the closure of academic institutions nationwide, the Cultural Revolution stunted the education of youth around the country, creating an under-educated workforce for decades to come. The detriment caused by the Cultural Revolution correlates most directly to the entrepreneurial capabilities, culture, and R&D technology determinants of entrepreneurship. Although education during the Maoist period was assumedly never centered on business or entrepreneurial topics, education as a whole affects ones tendency to think entrepreneurially through the encouragement of independent thought and analysis. The censorship of independent thought impeded the development of analytical thinking and problem solving skills necessary in entrepreneurs. Further, as the Cultural Revolution sought to eliminate all who threatened the righteousness of Mao, intellectuals were condemned, thus eradicating a group of individuals who possessed an entrepreneurial potential that Maoist China lacked. Further, one academic stated, "Private local marketing activity and state-organized interprovincial marketing of agricultural products were heavily restricted during the Cultural Revolution, reflecting both the general political bias against private commercial activity and the official government policy" (Lardy, 2015).

The CCP served as the puppet masters to the SOEs as they pulled their strings through the institution of quotas and regulations. Concurrently, SOEs were dynamically disallowing of internal entrepreneurial activity. As structurally top down organizations, state-run entities trickled information from the CCP downwards in a manner that disabled lower level workers from introducing innovative, or potentially more efficient, activities (Toth, 2016b). The tight restrictions and quotas pressed on the operators of SOEs discouraged entrepreneurship and innovation as workers feared failure or punishment for subordination. One study found that, “the cost of making mistakes was high, so their highest priority became avoiding mistakes. As a result, SOE managers were characteristically risk-averse” (Tan & Tan, 2004). This internal disbandment of entrepreneurship and innovation negatively affected SOEs as they struggled to compete with western counterparts. The inefficiency of the corrupt structure of these state-run giants was obvious as a study conducted by the Organization for Economic Co-operation and Development (OECD) implied that corruption inherently affects output levels through the disruption of input allocation, reduction of input quality, and diversion of entrepreneurship (OECD, 2013). However, as the only productive output of Mao’s reforms, the government sought little reprieve from these corporations and continually funded even failing ventures. The enormity of SOEs in Mao’s China allowed them to serve as representation of the nation’s lack of EO. As SOEs made up of a majority of the country’s GDP, their destructive attitude towards entrepreneurial activities was felt throughout nearly every industry.

Throughout the Maoist period, China’s Entrepreneurial Orientation withered due to the strict comprehensive nature of Mao’s communist regime. The formal institutions implemented under Mao did all but squander the possibility of private sector growth. Through the prohibition of private property ownership and the massive growth of SOEs, entrepreneurial activity was near

eliminated. Further, the informal institutions supportive of entrepreneurship such as creativity and independent pursuance of growth were squandered during the Cultural Revolution.

Mao left the country in shambles. In 1977, the year following Mao's death and leading to his successor's induction, China had a GDP of less than 10%, comparable to that of India (Yang, 2013). As the era of Mao's, arguably tyrannical, hold over the nation's infrastructure, economy, and social order came to a close, Deng Xiaoping emerged as China's next leader. Mao's China was an era marked by a systemic deterioration of the nation's EO as the stringent regulatory system forbade independent thought and private ownership while simultaneously monopolizing all industries. The reformations under Mao Zedong disallowed for businesses and the nation as a whole to participate in innovative, risky, competitively aggressive, or entrepreneurial activities as the combination of infrastructural deficiencies, immense government control, and political-economical entanglement ruled the country's business environment. The exceptionally low EO of China under Mao's command was detrimental to the nation's economy. The criminalization of opposition of the CCP successfully silenced all calls for reformation. Thus, it was not until 1978 that any whisper of the necessary change was rightfully acknowledged.

## Chapter 5: China Post 1978

The period following the end of Mao Zedong's rule was marked by a number of monumental reformations in both the political and economic spheres. The combination of major decentralization of government-owned organizations and an overall increase in awareness and support for innovative ventures generated a business environment unprecedented in China. With a growing acceptance and understanding of western ideals and the establishment of both formal and informal institutions encouraging of entrepreneurship, the nation saw a massive shift between 1978 and the early 2000s.

### *Reform and Opening*

Deng Xiaoping became the leader of the People's Republic of China in 1978. As a successor to Mao Zedong, it was evident that reform was necessary in order to halt and reverse the downward spiral the nation had experienced over the course of Mao's dictatorship. It was understood that in order to compete with their western counterparts, China needed to revolutionize its economical ideologies and business structure. As his predecessor had spent decades enacting policy to close China off from the western world, Deng saw the necessity of reforming and opening of the nation. Although Deng believed that absolute authority belonged to the Communist Party, the policies enacted under his leadership displaced his valuation of economic prosperity above the socialist agenda (Vecchione, 1997). Deng promised to revolutionize China. He worked to do so by substantiating the Four Modernizations plan enacted by Hua Guofeng in 1977. This policy established that improvements would be made in order to advance the nation's agriculture, industry, technology, and military sectors. Through the introduction of numerous funding efforts and the implementation of the Household

Responsibility System, the agriculture sector flourished contrarily to how it had suffered under Mao (Coniel, 2016). As had been expected, but failed under Mao, the growth and success of agriculture led to the growth of industry as factories were built and production of steel and other manufacturing outputs increased. Similarly, in respect to the nation's industrial sector, improvements were made in the form of systematic changes such as the introduction of the Industrial Responsibility System that served as a structure of supervisory controls over SOEs (Coniel, 2016).

Simultaneously as the Four Modernization's were enacted, in December of 1978, the CCP announced the Open Door Policy. This reformation opened the historically exclusive country to participation in the global market. In January of 1979, Deng became the first Chinese leader to visit the United States. During his visit, Deng spoke with American officials regarding his plans to modernize China and enter into the global economy. The opening of China's doors allowed for an influx of capital necessary to perform the revolutionary plans Deng proposed. Between 1978 and 1992, China's total exports increased by nearly nine times while their imports also grew by over seven times (Wong, 1995). The opening of China immediately revamped the nation's economy as their Real GDP increased from 5.8% in the 1970s to 9.5% in the 1980s (Wong, 1995). During this period, foreign investors flocked to Hong Kong and Taiwan. To further stimulate China's interaction with international investors, Deng commissioned the institution of Special Economic Zones. These areas, strategically positioned along the nation's southern and eastern coasts, were privy to government-approved policies to incentivize foreign capital. Following a visit to the nation's SEZs, during which Deng witnessed the economic prosperity that filled these areas, the government formed fourteen more.

By the mid 1980s, the country was thriving. Chinese art and literature flourished for the first time in decades. A professor from the University of Science and Technology said, “I encouraged my students to think and study freely. We tried to create an environment that cultivated knowledge and qualified people, not a place to train docile tools of the party” (Vecchione, 1997). The people of China’s countryside began selling their surpluses in local markets, exemplary of the success of the Household Responsibility System. Other civilians were employed by the nation’s SOEs. Many Chinese people referred to the country’s monopolizing entities as the “Iron Rice Bowl” because of the security and stability that came with working for an SOE. However, the same rigidity that provided thousands of workers with a consistent income caused an inefficient system that produced products no one wanted. Nonetheless, Deng saw China’s SOEs as the backbone of communism as they were obedient pawns of the CCP. In 1986, Hu Yaobang, the General Secretary of the Communist Party, advocated for the loosening of the CCP, in affect requesting that older officials retire to allow for a continual rejuvenation of the country. Although supported by Deng and much of the nation’s population, Hu was opposed by the party and denounced by conservatives.

In 1989, following Hu Yaobang’s death, the country’s youth exploded with grief and anger. Students from all over flocked to Tiananmen Square to both pay tribute to a man who had symbolized progress and to demand political change. Comparable to the demonstrations for democracy that filled Tiananmen Square in the 1940s, these protests for the freedom of speech, the right to unionize, and the end of political corruption overwhelmed the city of Beijing. The displays lasted for months and ended on June 3<sup>rd</sup> when troops entered Tiananmen Square, killing over 200 people. Although the nation had seen incredible economic reform in the year’s prior, the Tiananmen Square Massacre signaled the CCP’s continued intent of control.

Under Deng Xiaoping, China experienced a great period of growth. Restored from the depression that ravaged the nation under Mao Zedong, China entered the world stage as a potential power. Through the opening of China's doors to international trade and cooperation, the nation saw money begin to flow both in and out of the country. In addition to capital and tangible assets, China saw an influx in intangible trade of knowledge and concepts. However, a multitude of issues remained unaddressed, including peasant unemployment and the immense gap between the country's rich and poor. In interaction with western nations such as the US and Germany, structural differences between the countries were noted. As the flow of information between China and other international powers increased, realizations were made regarding the inefficiency of their politically intertwined business environment and the detriment it continued to have on the nation's people. These recognitions resulted in a call for the reorganization of many major components of the nation's economic structure, most notably its SOEs.

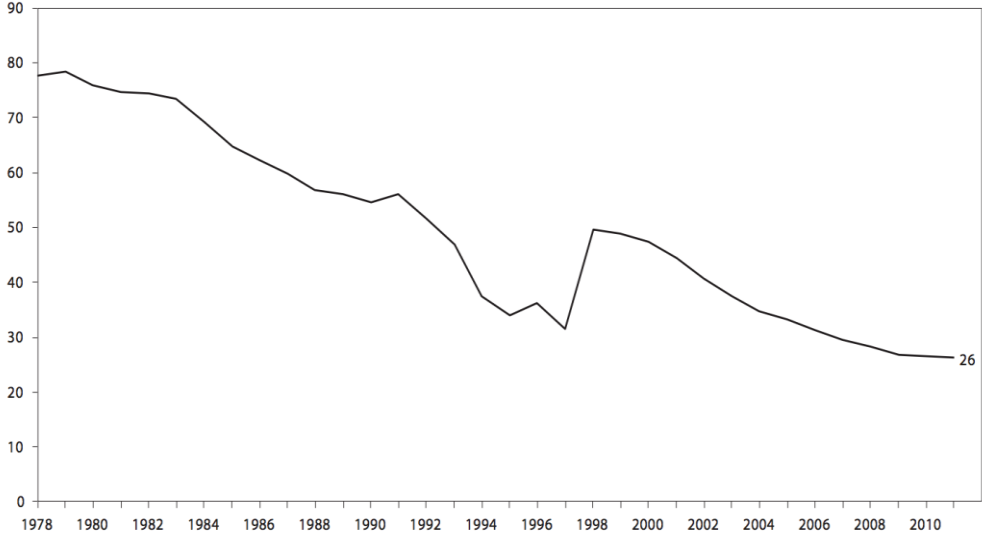
### *Reform of SOEs*

The incompatibility of SOEs and increased international trade was quickly realized. Consequently, alongside the massive reforms that centered on advancing agriculture and industrial production, additional alternations were made to the state-run system that governed China's business environment. A shift towards decentralization began quite concurrently with Deng's emergence and the enactment of reform and opening policies. The movement away from centralized, government-controlled, entities was arguably caused by the intensified competition that occurred with the opening of China's borders (Tan & Tan, 2004). As multinational companies entered into the Chinese market, the inefficiencies of SOEs were exposed. The increased pressure from international competition forced them to make major changes. SOEs

were, in essence, given the ultimatum to conform and allow for the entrepreneurial flexibility that existed within western organizations, or fail.

This called for an overhaul of state-governed entities in the form of restructuring. The concept of a top down system was insatiably incompatible with an open market structure as information and monetary flow needed to be leveled. This leveling of SOEs included the reorganization of managerial positions away from the CCP to either local governments or to private organizations. SOEs were restructured both through decentralization and privatization. Through both processes, the disassembly of these publicly controlled organizations became a common occurrence. A massive shift towards the privatization of SOEs began in the mid 1990s so much so that “by the end of 1996, 11.5 million workers were laid off and 50-70 percent of SOEs had been privatized” (Eesley, 2009). The reduction and decentralization of SOEs subsequently resulted in the growth of China’s private sector. From 1978 to 2004 the number of private sectors employees increased by 300 times (Eesley, 2009). Similarly, by 2006 the CCP only controlled 147 of China’s 24,961 SOEs and the contribution to gross industrial output from state enterprises dropped from nearly 80% in 1978 to 26% in 2010 (Liu, 2009; Lardy, 2015). Figure 3 illustrates the drastic decrease in SOE output between 1978 and 2010 (Lardy, 2015).

*Figure 3: Gross Industrial Output of State Enterprises (1978-2011)*





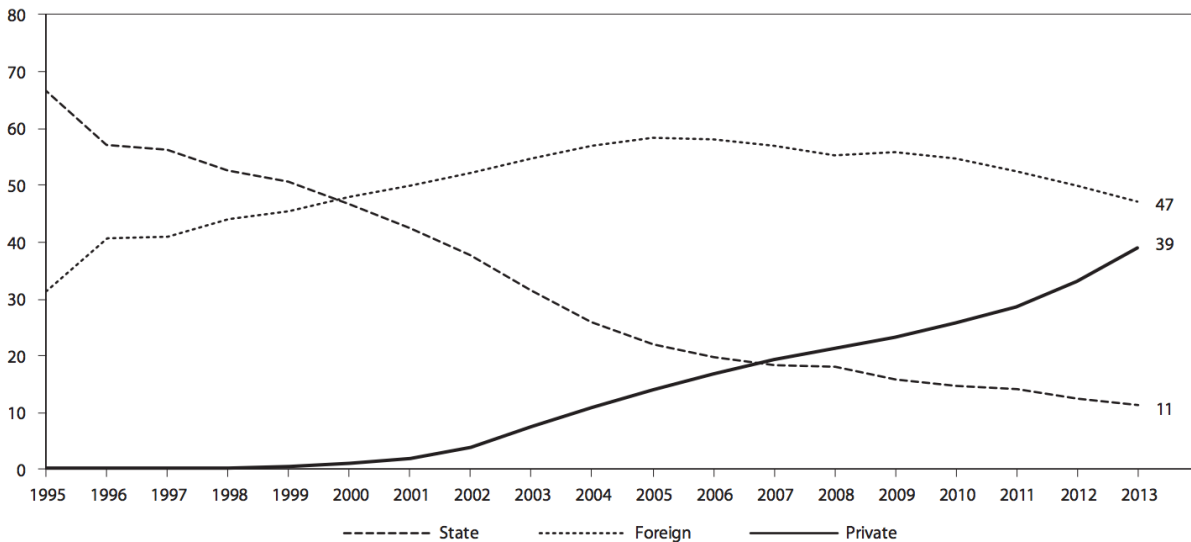
Similarly, Table 1 displays the continual decrease of SOE share contribution to total industrial output and the country's GDP between 1989 and 2001 (Tan, 2007).

*Table 1: Economic Indicators of Chinese Economic Transition since 1990*

Year	Total GDP	Industrial Output (Total)	Industrial Output (SOE)	SOE Share
1989	1690.92	2201.70	1234.00	56.06%
1990	1854.79	2392.40	1306.40	54.61%
1991	2161.78	2662.50	1495.50	56.17%
1992	2663.81	3459.90	1782.40	51.52%
1993	3463.44	4840.20	2272.50	46.95%
1994	4675.94	7017.60	2620.10	37.34%
1995	5847.81	9189.40	3122.00	33.97%
1996	6788.46	9959.50	3617.30	36.32%
1997	7446.26	11,373.30	3596.80	31.62%
1998	7834.52	11,904.80	3362.10	28.24%
1999	8191.09	12,611.10	3557.10	28.21%
2000	8940.35			
2001	9593.00			

Figure 4 displays how, as the state contribution to exports decreased, the private contribution increased, exemplifying the transition from public to private enterprises (Lardy, 2015).

*Figure 4: Sources of Chinese Exports by Ownership Status (1995-2013)*



The friction between SOEs and the market economy into which China had transformed, was most clearly illustrated in 2001, as prior to its entrance to the World Trade Organization, China was required to further relinquish control of their massive SOEs. As the WTO promotes

the interaction of member countries through trade and collaboration, the inherent barriers that large state-owned organizations would cause, needed to be removed (Toth, 2016b). In order to be accepted into the WTO, China obeyed and further lessened the few remaining reigns the government held. Seemingly, all parties benefited from the diminishing of China's public sector as the nation was able to compete freely on an international level, enjoy the influx of money and information, and grow their previously non-existent private sector. Further, as will be discussed in the section to follow, the simultaneous weakening of state control and strengthening of the private sector allowed for the emergence and development of entrepreneurship within the historically closed off and stagnant nation.

## Chapter 6: EO Post 1978

As outlined above, the period following Deng's emergence radiated with reformation. The revolutionary policies enacted under his rule served as catalysts of the nation's economy and supportive of the necessary decentralization the country's massive state-run entities. Although entrepreneurship, or private enterprise, was illegal in China until 1988, following Deng's ascension to power, the nation experienced a reprieve from the harsh constraints of communist ideals. An amendment to the Constitution of the People's Republic of China that "permits the private sector of the economy to exist and develop within the limits prescribed by law", was approved on April 12<sup>th</sup>, 1988, nearly two decades after the time it was initially outlawed under Mao (Eesley, 2009).

Entrepreneurship in China began to be seen more prevalently as early as 1979. The relinquishing of Mao's centralized and politically motivated policies allowed for the legitimization of private enterprise. The Four Modernizations program initiated a stream of increasingly entrepreneurially oriented policies that came out of the CCP. As this policy centered on the evolution of the nation's sectors, this resulted in the introduction of research and development necessary to invigorate the agriculture, industry, technology, and military sectors. The affects of the Four Modernization policy were largely positive in their improvement of China's economic position and social welfare. The benefits reached as far as farmers to factory managers, and created a seemingly new breed of worker: the entrepreneur. As stated by one scholar, the period of reform and opening was a time that "can be characterized by an institutional environment that begins to support entrepreneurship via legitimization, less stringent discrimination against private ownership, economic zones with lower tax rates and foreign investment reform and privatization of SOEs" (Eesley, 2009).

One early instance of entrepreneurship can be seen following the introduction of the Four Modernizations. In the efforts to improve agricultural outputs, township and village enterprises, or TVEs, became more widely accepted as legitimate business structures. Although TVEs had long existed, they had once been overshadowed and shrunken by Mao's collectives. Under Deng's command, TVEs legitimized in a fashion that did not relinquish entire government control but allowed managers to practice entrepreneurial activities through the setting of products and prices (Eesley, 2009). In the early 1980s, the Household Responsibility System was introduced. This system allowed farmers to produce outside of the government-regimented quota and sell these excess products for personal income (Atherton, 2018). The institution of the TVE and Household Responsibility System incentivized farmers and other civilians to act entrepreneurially. The success of the Household Responsibility System led to the ultimate dissemination of the system to other sectors. This allowance of creation or production for personal gain directly supported an entrepreneurial mindset in farmers, factory workers, and everyday civilians.

In concurrence with the Four Modernizations, the Open Door Policy encouraged international interaction that could stimulate the nation's economy. As was seen in Shanghai in the 1930s, the opening of ports and other mechanisms of trade increased the ease of access to foreign markets. In addition to the access to export markets such as those in the US and other western nations, China's opening encouraged the entrance of foreign capital. Increased access to financing allowed for entrepreneurs, of both the public and private sector, to obtain funding from a multitude of sources, including venture capitalists and angel investors. As put by one academic, "the reform essentially opened the economy to the entrance of new business participants... and has led to the emergence of new opportunities and a new generation of entrepreneurs grown out

of the old state planning system” (Tan & Tan, 2004). No longer restricted by the dependence on government-controlled allocation of resources, private entities could now access assets, such as capital and technology that were previously distributed solely to SOEs.

Another development towards entrepreneurship that emerged from the opening of China was the necessity for the solidification of property rights as the increased interaction with foreign goods gave rise to the potential of counterfeiting and intellectual property theft. For example, in addition to the subsequent trade increase that occurred when China joined the WTO, the succeeding improvement of intellectual property rights was incredibly beneficial to the country and, more directly, entrepreneurs (Eesley, 2009). Entrepreneurs benefited from the strengthening of these regulations as less risk accompanied the construction of a new product or design. A number of laws were enacted within the first decade of Deng Xiaoping’s reign that both established and protected rights necessary to act entrepreneurially. For example, the 1982 Trademark Law, 1984 Patent Law, 1987 Technology Contracts Law and the 1990 Copyright Law protected the rights of entrepreneurs and inventors, and further incentivized entrepreneurs to commercialize their innovations (Schmid & Wang, 2017). Further, as stipulated by the determinants necessary to achieve entrepreneurial activity, a regulatory framework containing regulation over product development, the labor market, and the legal system is essential.

China’s strong legal environment necessary for entrepreneurial activities developed overtime, but has ultimately solidified in a manner that is conducive and representative of the nation’s increased EO. Since the beginning of the both politically and economically reformative era in China, legislation has been enacted to encourage private enterprises and entrepreneurs to start new businesses or privatize existent ones. The development of a strong and inclusive property law system, the introduction of limited liability organizations, and the development of a

stable credit and lending system were all reforms that further allowed the private sector to blossom (Lardy, 2015). As postulated by both institutional theory and the Framework for Measuring Entrepreneurship, the implementation and development of strong formal and informal institutions supportive of property ownership and private business create an environment conducive to a high EO.

In addition to legislation passed to directly allow for an increase in entrepreneurial activity, reforms were made that indirectly increased the nation's EO. For example, in November of 1993, "the Third Plenum of the Fourteenth Central Committee issued the 'Decision of Issues Concerning the Establishment of a Socialist Market Economic Structure'" (Eesley, 2009). This piece of legislation further advocated for the openness and new interconnectedness of China and the world. Concurrently, the decision "moved the country towards a reduction in ownership discrimination between state and privately owned businesses (Eesley, 2009). Additionally, this legislation further flattened the business environment, allowing private businesses to compete against monopolist SOEs. The "Decision of Issues Concerning the Establishment of a Socialist Market Economic Structure" simultaneously served as the CCP's intention to turn large state enterprises into more independently run companies and reduce the nation's SOEs (Eesley, 2009). In 1999, a Constitutional amendment was passed officially giving the private sector the same legal level as the public sector (Eesley, 2009).

Although supported under earlier legislation, it was not until 1995 that the privatization of SOEs took place. By 1996 between 50-70% of SOEs had been privatized (Eesley, 2009). The reform that would follow, in the form of reduction and reorganization of SOEs, arguably had the most influence on China's EO as it took place over a period of decades and entirely restructured the nation's business environment. The gradual loosening of the nation's SOEs gave way to a far

more competitively, and entrepreneurially conducive business environment, and gave rise to a substantially higher EO.

Increased autonomy within SOEs allowed managers to take innovative steps to compete in ways that had previously been disallowed. However, early on in the era of reform, SOE managers were still hesitant to participate in potentially risky activities. Organizations had been handed autonomy but did not quite know what to do with it. Managers were said to “avoid more entrepreneurial-minded strategies such as proactiveness, innovativeness, and future oriented choices that involved more risk-taking” (Tan, 2007). This was in part due to the remnants of political agenda that continually existed in these entities. As managers were previously political appointees, their allegiance remained with the party. On one hand, one scholar argued that SOEs’ “newly acquired autonomy and flexibility have motivated the SOEs to build resources and capabilities to compete. As a result, they have become more willing to be innovative and proactive and assume more risks than their predecessors” (Tan & Tan, 2004). Contrarily, as many SOE managers were formerly the puppets of the CCP, they had little experience to do so and lacked the business and entrepreneurial skills to act entrepreneurially. The traditional structure of SOEs was continually perpetuated following the reformation of the economy into one more conducive to autonomous organizations. This slowed the process of modernization and stagnated the nation’s EO. However, as mentioned above, China’s SOEs faced a sink or swim scenario in which they needed to reorganize. One scholar argued that if China wanted to continue growing their SOEs needed to, “either become more efficient and position themselves as global low cost leaders or improve entrepreneurial flexibility and become global niche players” (Tan & Wang, 2010).

A wave of, more or less, replacement, allowed remaining state-run managers to be

exchanged for managers elected by employees or the board (Tan, 2007). For this reason, modern SOE managers are considerably “better educated, more capable of good decision making” and are thus less risk averse (Tan & Tan, 2004). One scholar wrote that, “unlike their predecessors, these youngsters [modern entrepreneurs] are not afraid of failure” (Tse, 2016). The risk aversion that previously existed in SOEs heavily discouraged entrepreneurial activities. In referring back to the definition of EO, the inability or unwillingness to participate in risky activities prevents an organization, or a country, to achieve a positive EO. Conversely, the increase in risk tolerance has consequently increased the EO of China’s SOEs.

China’s decentralization of SOEs was similarly accompanied by organizational restructuring. In addition to the replacement of old and traditional-minded management, many of the nation’s SOEs instituted new programs to improve production through incentive programs. As government entities, China’s SOEs continually saw decreased incentive to compete due to their soft budget constraint. In essence, these massive organizations did not fear failure due to the assurance that the government would ultimately bail them out. However, the institution of performance-based initiatives encouraged employees to improve personal performance and thus overall firm success (Tan, 2007). Similarly, the legal protection provided to private enterprises discussed previously (i.e. property right, copyright, and other laws) consequently incentivized SOEs to innovate due to increased competition.

Applying the definition of EO as “an organization’s willingness to partake in, or participation in, innovative, risky, competitively aggressive, or entrepreneurial activities with the ultimate goal of new entry, market disruption, or product or service evolution”, the modern SOE has an EO far higher than that of its successors. One study found that “the environment in the late phase (2002 onward) is more conducive to entrepreneurial activities, and managers in SOEs



have reacted favorably with more entrepreneurial oriented strategic choices aimed at future growth rather than at satisfying state planners” (Tan, 2007). Similarly, although SOEs were previously representative of the entrepreneurial nature of the country, China’s business environment has since changed, as can be seen through the immense growth of the private sector. This simultaneous growth of privately owned entities that accompanied the shrinkage of the state sector is indicative of the increased EO of China. Now as both a major cost-driver and innovative nation, China has become an international marketplace for consumer and technological goods that have disrupted markets around the world. The nation’s reformations from a strict, closed, communist-regime has allowed it to grow faster and stronger than nearly any other country.

## Chapter 7: Present EO

Following the legalization of private enterprise in 1988, China has continually seen a growth in both the number of private sector entities and an increase in entrepreneurial activity that remains to the present day. As discussed in the previous section, the reforms and policies enacted under Deng Xiaoping and his successors successfully turned China around from a closed and isolated communist regime to an open and active participant in the global economy. In addition to the entrepreneurial activity consequential of the nation's open doors, the systematic decrease in SOEs has allowed for a more competitive and entrepreneurially minded marketplace. These ideals continue to perpetuate through modern China as both formal legislation and cultural institutions have metamorphosed to support a growing entrepreneurial inclination.

Statistically put, since the 1990s more than 30 million businesses have been founded each year as legislation passed in the last decade equated the public and private sectors (Tan & Tan, 2004). However, in 1998, China's private sector was still roughly only 0.2% of the nation's GDP (Atherton & Newman, 2018). According to Andrew Atherton's *Entrepreneurship in China: The Emergence of the Private Sector*, there are now over 15 million private enterprises and over 50 million private household enterprises, highlighting the growth experienced in the past two decades (Atherton & Newman, 2018). The growth of China's private enterprise is due to various changes and progressions made within the nation. The continued decentralization and restructuring of the country's SOEs has allowed private enterprise to grow at unprecedented rates. The growth of China's private sector has been continually aided by the passage of formal legislation and informal verbal support by politicians. This shift from dependence on SOEs as the central generator of GDP has allowed the nation to prosper economically as well as

entrepreneurially.

Beginning at the turn of the millennia, entrepreneurs were allowed entrance into the Communist Party (Eesley, 2009). This event signified the open-mindedness the nation's government had adopted over the decades. Similarly, this period was characterized as having institutional structures, both formal and informal supportive of entrepreneurship (Eesley, 2009). For example, although the constitutional amendment in 1988 created the concept of property rights, it was not until 2004 that property rights were formally protected under law. The 2004 amendment to the constitution stated that the government "protects the lawful rights and interests of the non-public sectors of the economy such as individual and private sectors of the economy...encourages, supports and guides the development of the non-public sectors of the economy... citizen's lawful private property is inviolable" (Zhang, 2008). Property rights have continually been cause for debate in China as the ideologies of the Communist Party remain well respected. The 2004 amendment was crucial, as its encouragement of entrepreneurship provided entrepreneurs and private business owners with legislative support for ownership. The legitimization of private property rights similarly created incentives for inventors and entrepreneurs to act innovatively without the threat of theft. This increase in property right protection can be quantified as China moved from 69 out of 122 countries on Walter Park's Index of International Patent Protection in 1995 to 34 out of 122 in 2005 (Park, 2008).

Another factor greatly influencing China's EO is the focus on research and development as well as the usage and infusion of modern technology in everyday life. Between 1991 and 2014 the percent of China's GDP spent on R&D rose from 0.7% to 2.05% with a national goal of 2.5% by 2020 (Wei, Xie, & Zhang, 2017). China's concentration on research and development can be seen through their ratio of researchers per million. In 1996, China only had 443

researchers, however in 2014 that number had grown to 1,113 researchers per million (Wei, Xie, & Zhang, 2017). Further representing China's support for R&D and innovation is the nation's tenth five-year plan for years 2001-2005 in which the CCP encouraged concentration on technological growth as a central driving factor in continued growth (Koveos, 2018). In alignment with the importance of R&D, China's twelfth five-year plan included targets regarding rates of innovation and technology. These goals align with the determinants necessary for supporting entrepreneurial activity – such as 93% nine-year education retention rate and 63,000 patents (USCBC, 2016). Patent growth in China is astronomical in part due to the increased regulation of private property instituted in the early 1990s as the protection of intellectual property decreases the risk of loss associated with product creation. Since 1995, the number of patents has grown at roughly 19% per year from 83,045 to 2.3 million in 2014 (Wei, Xie, & Zhang, 2017). This paired with the continued privatization of China's industries, resulted in nearly 195 million people working in private enterprises (including self-employed) in 2011, representing the largest privatization program in world history (Wei, Xie, & Zhang, 2017).

The government's support of privatization is further seen in a number of initiatives throughout China's government. For example, in 2012, the US-China Strategic and Economic Dialogue communicated their commitment to “developing a market environment of fair competition for enterprises of all kinds of ownership and to providing non-discriminatory treatment for enterprises of all kinds of ownership in terms of credit provision, taxation incentives, and regulatory policies” (Gang, 2013). Further, the country's current Premier, Li Keqiang, called for “mass entrepreneurship and innovation” in an act to continue to strengthen the nation's economic strategy through the growth of EO (Tse, 2016). This call has been recognized by numerous foreign entities, investors, and major venture capitalized, excited to

support and utilize the growing Chinese business market. Venture capital investments have grown immensely, increasing from \$12 billion between 2011 and 2013, to \$77 billion between 2014 and 2016 (The Economist, 2017). In 2015, China unveiled their “Made in China 2025” initiative. This program, reflective of the nation’s strategic orientation, has the goal of upgrading China’s industry through the implementation of manufacturing innovation centers, strengthening intellectual property rights, and increase technology standards (Kennedy, 2015). China’s thirteenth five-year plan, spanning from 2016 to 2020 reiterates the nation’s attentiveness towards funding innovation and development, as well as their alignment with continued economic modernization. As one of the plans main objectives, it stated:

We will pursue innovation-driven development, ensure that business startups and innovation flourish, and see that total factor productivity is markedly improved. Science and technology will become more deeply embedded in the economy, the ingredients needed for innovation will be allocated to greater effect, major breakthroughs will be made in core technologies in key sectors, and China’s capacity for innovation will see an all-around improvement (Central, 2018).

These objectives were further substantiated by benchmarks set for patents, research and development expenditure, and contribution to scientific and technological economic growth. However, although China has seen unprecedented expansion into the private sector, the state-sector remains a large component of the Chinese economy. For example, “in 2014, SOEs occupied four spots among the top 10 largest firms worldwide”, three of these spots belonged to Chinese-owned companies (M. Peng, 2016). Although the number and breadth of SOEs have decreased substantially, those that remain are massive and continue to dominant important sectors such as energy and communications. As detailed above, it is the internal adaptations made

to the structure of SOEs that have allowed these state-run giants to remain competitive against smaller, more entrepreneurial, firms. Included in these improvements and alterations made to the corporate governance and operational structures of China's SOEs are improved incentive initiatives that encourage nearly all levels within an SOE to operate efficiently and innovatively. These incentives include increased dividend payout ratios, performance-based compensation, tax breaks for innovative firms, and financial incentives to apply for a patent abroad, as well as increased accountability requirements and expectations from external bodies (Gang, 2013; Schmid & Wang, 2017).

The informal institutions that previously governed the dynastical and early Republican periods have, for the majority, been replaced with strong and EO-supportive formal institutions. However, the lasting importance of kinship remains as a driving factor in the Chinese business-environment. Guanxi, defined as "special relationship" is often considered a "social means to overcome political, economic and legislative obstacles to enterprise" (Lee, 2007). Its legitimacy as an informal institution has continually allowed for the cultivation of private enterprise in the wake of weakened or inexistent formal property rights. One scholar wrote, "strong ties provide the bonds and obligations, cultural identity generalizes bilateral bonds and obligations into group loyalty, and leadership and density help to mobilize resources into collective action and normative control" (Y. Peng, 2004). Further, "kinship networks help protect them from predatory cadres and thus reduce the uncertainty and high transaction costs associated with insecure property rights and fledgling markets (Y. Peng, 2004). In a study regarding the prevalence of guanxi in modern China, respondents replied that guanxi allows them to achieve numerous goals, many within the business realm (Lee, 2007). Table 2 highlights the ways in which guanxi benefits those who utilize it.

<b>Table 2: How Guanxi Helps Achieve Goals (Lee, 2007)</b>
Cannot tell, it is so personal
Know the key persons, approach them directly
Can buy cheaper products
Save time, energy, and resources
Can know the bottom line or the competitor's price in biddings
Grasp customers from competitors
Guanxi is only the entrance, still needs your own capability
Can receive important information anytime
Knowing the bottom line of competitors
Help develop customer relations and market
Strong personal social circle
Offer the lowest bid after knowing all the bidding prices
Use influence to achieve something

These advantages obtained through social networks and the exploitation of guanxi further allow entrepreneurs and small and private business owners to compete against the few remaining SOEs. Additionally, in congruence to the increasingly supportive regulatory system, the continuation of guanxi as a strong informal institution further incentivizes entrepreneurs to participate in risky or uncertain ventures as it limits the inherent risks associated with doing business.

An additional informal institution that similarly influences the EO of China is the nation's overall opinion of entrepreneurship and its feasibility of enactment. In the 2016 Amway Global Entrepreneurship report, it was reported that 88% of respondents from China had a positive attitude towards entrepreneurship (Amway Global, 2016). This was both higher than the average in all of Asia, all of the EU, and equivalent to the findings within North America (Amway Global, 2016). Similarly, the report found that 77% of respondents would consider entrepreneurship a desirable career path and that it would be feasible if chosen, representing China's increased EO through an increased willingness to act innovatively (Amway Global, 2016). These results highlight the nation's support of the continual transformation from its traditional and rigid history and its intention to continue on a path of innovation.

Examples of the country's increased encouragement of entrepreneurship lay in the success stories of organizations such as Alibaba, Tencent, Lenovo, and the emergence of entrepreneurs from countless backgrounds and organizational structures. In September of 2014, Alibaba founder, Jack Ma, was named the richest man in China as his company IPOed in the United States (Tobak, 2014). However, prior to the unimaginable success of Alibaba, Ma was simply an English teacher and aspiring entrepreneur. The Internet commerce company, now valued at over \$230 billion, began with the funding of Ma's idea by friends and family and ultimately angel funds and formal investors (Tobak, 2014). In his success, Ma has remained honorable to the value of entrepreneurship and in a 2015 talk, urged young entrepreneurs to stay loyal and resist corrupt practices (Zuo, 2015). As China has a rich history of corrupt government officials and political-business entanglement, Ma counseled his colleagues, "to work hard to maintain good relations with the government, but stick to the basic principle that bribes should never be involved" (Zuo, 2015). As previously stated, corruption generates inefficiencies that harshen the business environment for entrepreneurs. Ma's encouragement of honest business further perpetuates the positive effects that honest business practices have on the ability to participate in entrepreneurial activities. Even further, simultaneously highlighting the expansion of EO in China and encouraging young entrepreneurship, in 2015 Alibaba launched the Alibaba's Entrepreneurs Fund. This non-profit portion of the multi-billion dollar organization "provides entrepreneurs and young people with investment capital, strategic guidance and internship opportunities to help them better achieve their goals" (AEF, 2015).

Stemming from a once seemingly archaic country, China's Alibaba has risen far higher than previously possibly. At a 2015 conference entitled "China: 10 Years Ahead", Ma spoke about the future of Alibaba in order to guide western businesses on a similar successful path that



he has experienced and aims to continue upon (Wang, 2015). In explanation of Alibaba's success, Ma made it clear that through the internal encouragement of entrepreneurship through its selling platforms and managerial structure, the organization has enjoyed colossal growth in comparison to competitors such as Amazon and Ebay (Wang, 2015). With the allowance of entrepreneurial endeavors through direct and indirect reformation, Alibaba is representative of the nation's advancement, surpassing the expectations, and even capabilities, of their western counterparts.

In the May 2005 article "The Chinese Economic Reform and Chinese Entrepreneurship", Vicky Hu argued that there are four types of entrepreneurs, those from state-owned companies, former state-owned companies turned into stock companies, private companies, and foreign fund companies or joint-ventures (Hu, 2005). Hu delineated that all Chinese entrepreneurs are now more courageous and resolute than ever and find great joy in the learning and discovery that accompanies entrepreneurship (Hu, 2005). Hu further noted that entrepreneurs from foreign funded companies are able to "combine professional skills with the traditional Chinese character" and thus, "have grown into the backbone of Chinese entrepreneurship" (Hu, 2005). This is in part due to the international education that foreign funded entrepreneurs may have experienced. As a whole, Chinese entrepreneurs are typically less educated or less experienced than entrepreneurs from a western nation (Hu, 2005). Although statistics have improved since Hu's research in 2005, lack of professional skills and formal training remain as potential hindrances to successful entrepreneurial activity. However, another scholar argued that the business conditions in which Chinese entrepreneurs operate are allowing them to expand rapidly. For example, China's entrepreneurs are operating in the world's second-largest economy, providing them the opportunity to be successful through scaling or growing domestically (The

Economist, 2017). Further, the remaining inefficiencies within state-owned enterprises allow “agile newcomers” to deploy customer-first strategies and capitalize within the market (The Economist, 2017). The sheer ability to perform in China’s present business environment has ultimately incentivized entrepreneurs to act innovatively and further increase the nation’s EO. Similarly to the American Dream, China has generated an environment in which entrepreneurs can act entrepreneurially, persistently moving away from the stringency of Communism towards an innovative and progressive future.

## Chapter 8: Conclusion

The transformation of China's political and economic environments from what they were before 1978 to what they are now is arguably remarkable. Throughout China's tumultuous history, periods of progression were often reverted by times of foreign occupation, civil dispute, or cognitive disagreement. It was, however, centuries of reform, either positive or negative, that ultimately resulted in the construction of the entrepreneurially minded and progressive country that China is today. The formal and informal institutions that existed within each of China's great eras were both influential and reflective of the entrepreneurial activity that took place inside each. Similarly, through the application of the determinants of entrepreneurship, a greater understanding of each period's EO was established. Through the analysis of China's history and the application of numerous lenses of identifying entrepreneurship, it was established that China's EO has been drastically transformed. As the definition of Entrepreneurial Orientation remains, "an organization or nation's ability and willingness to partake in, or participation in, innovative, risky, competitively aggressive, or entrepreneurial activities with the ultimate goal of new entry, market disruption, or product or service evolution" this paper delineated the transition from Imperial China to present day.

Beginning in the Imperial Period, prior to the fall of the Qing Dynasty in 1912, China, although relatively advanced compared to their western counterparts, was unsuccessful in maintaining their status as the period was marked by culturalism and an overt reliance on traditionalist Confucian principles. Their inability to mobilize militarily in times of foreign invasion resulted in dramatic economic and political failure, triggering a resounding call for nationalism and the onset of the "Century of Humiliation". During this period, China's evident lack of formal institutions played a major role in both their political and economic collapse.

Although the perpetuation of Confucian values of kinship and relationships somewhat subsidized the lack of formal systems of business, it was ultimately unsuccessful in shielding the nation's EO from the effects of an unstable political and economic environment.

Although the demise of the Imperial Era shed light on the necessity of a strong political system, the period to follow was similarly debilitated by internal political conflict. The Republican Period, spanning from 1912 to 1949, began as the dissolution of the Qing Dynasty left the nation fragmented in both a literal and figurative sense. As provincial warlords remained in power and the Chinese Communist Party and Nationalist Party began their fight for total control, the nation was inherently divided. Under the command of warlords, private-property was non-existent, stifling any ability to act entrepreneurially. Simultaneous to the continual struggle between the CCP and KMT, foreign forces invaded the struggling nation, further devastating the war-torn country. Despite a resounding need for unification and stabilization, the country did not see it until 1927, and even then, disputes between the two parties continued. Although unification under the KMT signified the end of warlords and the possibility of private-ownership, the continual fight encumbered all government effort, leaving civil rights (i.e. property rights) as impertinent to the nation's rulers. Though the period was largely overpowered by political conflict, minor economic reprieve was seen through the success of Shanghai and the financial assistance from the United States. Shanghai's short-lived presence as a capitalist paradise benefited the country, increasing a flow of information, technology, and capital, positively increasing the nation's ability to act entrepreneurially. However, the overarching theme of war and conflict reigned throughout Republican China, negatively influencing the business environment and disincentivizing entrepreneurial or innovative activity. The period ended with limited advancement, as any increase in EO was counteracted by the government's failure to

create an environment conducive of private enterprise. However, as the Republican Era concluded with Mao Zedong's ascension to power, it could be said that the period boasted a higher EO than the one to follow.

Mao Zedong entered as Chairman of the CCP and leader of the People's Republic of China in 1949. He entered a bankrupt and desolate nation that yearned for reform. Although he promised and enacted countless reformations modeled after those of the Soviet Union, they did more bad than good further denigrating the devastated nation. The overarching theme of Mao's rule was centralization and total control by the CCP. Deployed through a number of five-year plans, these reforms centralized agricultural and industrial production and entirely eliminated independent or private ownership. Both the first and second five-year plans resulted in dramatic spikes in poverty and starvation and were unsuccessful in producing the quotas instated by the CCP. These reforms depleted the nation's GDP and killed millions. Arguably, the most radical of Mao's reformations was the Cultural Revolution. The condemnation of educational, intellectual, or cognitive thought outside of the communist agenda jolted the nation's institutional systems. The annexation and punishment of those believed to be unsupportive of the CCP discouraged all independent thought. This reform created a generation of uneducated youths, an overall ideology that communist ideals should be omnipresent, and a wave of decreased creative and innovative thinking. Arguably, the only positive construction that arose under Mao was the institution of state-owned enterprises. Similarly controlled by the CCP these industrial giants simultaneously allowed for the resurrection of the nation's economy and perpetuation of the communist agenda. Additionally, their potential as foreign-engaging entities represented a new, yet slight, willingness to participate in the global economy. However, these colossal government puppets were inefficient as their central goal was to perpetuate communism rather than act competitively.

Many, if not all, of Mao's radical reformations were detrimental to China's EO as they focused on centralization and government control and depressed any bit of autonomy. The harsh reformations enacted under the first two five-year plans stripped the nation of any private property, diminishing the already-limited private sector. Further, the overall centralization of the country allowed the nation's budding SOEs to quickly grow into monopolies within nearly every industry. The combination of no legal rights, competition with state-backed entities, and the condemnation of creativity and entrepreneurialism drove the private sector to near extinction. As the nation's formal institutions entirely failed to support entrepreneurship, informal institutions were all of what was left to build up the country's EO. However, the perpetuation of communist ideals through nearly all facets of everyday life produced a culture unsupportive of entrepreneurship. Similarly, the Cultural Revolution and a number of other initiatives overtook the informal institutions as well – representing the omnipresence of Mao's leadership. Unlike the China of today, the EO in Communist China was slim, if not nonexistent, demonstrating the magnitude of the transformation that happened under Mao's successor, Deng Xiaoping.

It was not until Mao's death and the rise of Deng Xiaoping in 1978 that China saw a glimmer of hope in regards to their tightly controlled business environment. Deng's ascension to power signified a turning point in China's history as he promised reform to reverse the downward spiral in which the country had been sent. A number of reformations, including the Four Modernization's and the Open Door Policy, instantly showed a positive impact on China's economy. As Mao had famously isolated China from the rest of the world, Deng's Open Door Policy served as China's entrance into the global economy, creating a two-way stream of information, technology, and capital into and out of the country. Coupled with the Four Modernization's initiative to improve the nation's agriculture, industry, technology, and military,

the Open Door Policy, allowed China to rapidly advance their previously traditional systems to those compatible with the modern world. Similarly, this reformation increased exports, attracted foreign investors, and stimulated international interaction dramatically. The Open Door Policy provided entrepreneurs with access to previously nonexistent capital and markets allowing them to compete internationally. Similarly, it allowed for a flow of information that increased creative thinking and innovation. Deng's commissioning of Special Economic Zones further perpetuated China's newfound openness and stimulated the quickly recovering economy. The economic benefits of operating within an SEZ incentivized entrepreneurs and private business owners to create and commercialize. Similarly, incentives were seen later in the period as legislation was passed legitimizing private enterprise and protecting entrepreneurs with both tangible and intellectual property rights. Both legislation and the institution of formal business environments (i.e. SEZs) increased the nation's EO through the support of entrepreneurial activity.

Although the nation was reviving, it soon became evident that China's SOEs were still a central component to the economy, and thus private enterprises were still being out-competed. Reform of China's SOEs was necessary in order to allow the private sector to compete equally. Beginning in the late 1980s, the CCP began a complete reorganization of SOE structure in order to both decrease the number of state-owned organizations and decentralize those that remained. The goal of this restructuring was in part to stimulate private sector competition, however, it consequently allowed for increased entrepreneurial activity within SOEs as well. Both goals were achieved as the nation saw extreme growth of the private sector as well as increased production and success within SOEs. With state-run entities flattened, private businesses were able to access similar capital and markets – allowing the two to compete more fairly. The ability to compete alone increased the nation's EO as law or inequity previously hindered it. With both

the willingness and ability to act entrepreneurially, private business under Deng rose steeply.

The growth of private enterprise and entrepreneurial activity under Deng Xiaoping continued through the turn of the century and into present day. Continual progress through the passage of legislation and initiatives supportive of innovation and entrepreneurship is evident as present day China has become one of the world's most entrepreneurially minded nations. As the nation's politicians continually place value in R&D, advancements in technology, and innovation, entrepreneurs are incentivized to both think and act creatively. Countless initiatives, including formal incentives, encourage businesses to act entrepreneurially. Similarly, amendments made to tangible and intellectual property right legislation has further strengthened the governmental support given to private entities. China's SOEs are continuing to move away from traditionalist structures and deploying inventive strategies to increase productivity in order to compete with smaller and newer firms. Overall, the nation has manipulated their formal and informal institutions in a manner that support entrepreneurial activity.

A nation once marginalized by internalization and government control has since metamorphosed into a country conducive to innovative, risky, and aggressive activities. Evident in the success of organizations such as Alibaba, Tencent, and millions of other entrepreneurially based companies, China has transformed their EO from minimal to maximal through the reformation and utilization of their formal and informal institutions allowing them to resume as a leader in the international marketplace.



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