

ENTREPRENEURIAL FACTORS AFFECTING THE GROWTH OF CHINESE-OWNED PRIVATE COMPANIES IN CHINA

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ABSTRACT

While foreign multinationals and state-owned enterprises in China have been examined in many studies, less is known about Chinese-owned private companies [2] and about the entrepreneurs who start such companies [1]. Private companies are a fast growing part of the Chinese economy. In this study we explore several entrepreneurial factors that may affect sales growth rates of privately-owned companies in China.

In one of the earliest studies concerning Chinese entrepreneurs running private companies, Busenitz and Lau [1] studied growth intentions. We seek to extend this research by linking similar factors to actual growth rates (rather than growth intentions). Yueh [6] found that Chinese entrepreneurs differ from non-entrepreneurs in terms of social networks, motivation and drive, and attitudes toward risk. We seek to determine whether similar factors affect how rapidly Chinese-owned private companies grow. Djankov et al. [3] explained that entrepreneurship research typically employs one of three perspectives: institutional, sociological, or individual. In reviewing articles on entrepreneurship in China that has been published in eleven leading English-language academic journals from 1980 through 2005, Yang and Li [4] classify the research into three different levels of study: individual/micro studies, firm-level studies, and environmental/macro studies. Like Djankov et al. [3], we investigate all three perspectives (study levels) in order to develop a more comprehensive explanation of the growth rates of Chinese-owned private companies.

At the individual/micro level, we focus on the entrepreneurial founders and their backgrounds in order to investigate the impact of cultural and sociological factors on individuals' motivations. More specifically, we examine founders' internal motivations, such as greed or desire to become rich, as well as their external motivations, such as encouragement from family members, as potential drivers of sales growth. We also examine the founders' ages, genders, educational levels, areas of expertise, and the domains of their prior work experience. At the firm level, we examine the origins of the companies and the source of their startup capital. Because family-owned companies may have different growth objectives, we examine the impact of family ownership on growth rates. We also include factors related to the importance of or emphasis on the founder's entrepreneurial spirit, the founder's ability to seize opportunities, employee quality, innovativeness of the company's business model, and luck. Cooke [2] found that Chinese firms are beginning to emphasize corporate social responsibility (CSR) so we also explore the linkage between CSR and sales growth.

The Chinese economy has been undergoing a rapid and large-scale transformation over the last three decades. Entrepreneurial activities under these conditions can be very different from those in a more mature Western-style economy [5]. Initial research on Chinese entrepreneurship in the context of

private enterprise has focused on distinguishing entrepreneurs from non-entrepreneurs. But as the pool of entrepreneurs increases, Yueh [5] notes that it becomes increasingly important to understand why some of these entrepreneurs and their companies perform better than others. Our study contributes to this research stream by identifying factors associated with successful privately-owned companies in China. We measure success using sales growth rates collected from a survey completed by the owners of 260 privately-owned companies in China. Some of the key study variables are listed in Appendix A. Survey results are currently being analyzed and they will be presented at the conference meeting.

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APPENDIX A

Survey Instrument Variables

Dependent variable: Average sales growth rate over the last 3 years

Independent variables:

Founder:

Founder's Age

Founder's Gender

Founder's Education (Ph.D., Masters, Bachelor, Junior college, high school, other)

Founder's Major (science, management, literature/history/philosophy, law, economics, other)

Founder's Prior Experience (government, private owned business, etc.)

Founder's Internal Motivation (earn a living, gain high-quality life, become rich, attain career achievements, other)

Founder's External Motivation (incentive policy, encouragement from family members, entrepreneurial opportunities, others' successful cases, other)

New Venture:

Company Origin (started with own funds, restructuring enterprise, started with knowledge capital)

Startup Funding (innate funds, private lending, bank loan, direct financing from capital market, other)

Family Firm

Emphasis on Founder's Entrepreneurial Spirit

Emphasis on Founder's Ability to Seize Opportunities

Emphasis on Employee Quality

Emphasis on innovativeness of the business model

Emphasis on luck (Q21-17)

Social Responsibility

Controls:

Firm Age

Total Sales Revenue 2007

Survey Questionnaire available upon request.