**Establishing a viable Institutional Environment for Entrepreneurship in China: A Case Study of Zhejiang Province**

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**1. Introduction**

A great deal of research shows that entrepreneurship has been the driving force behind every nation’s economic progress (Christensen *et al.*, 2002), particularly, in playing a momentous role in creating innovation, increased competitiveness, employment opportunities and economic growth (Gurol and Atsan, 2006). Echoing the growing evidence to suggest that there exists significant causal relationships between entrepreneurship, innovation and economic growth, many industrialised and developing countries are taking steps to promote entrepreneurship activity within their society (Ahmad and Xavier, 2012).

Particularly, emerging economies, such as China, are enduring profound institutional transformations and provide exciting research places for management research in general (Tan *et al.*, 2009). Moreover, beyond the general entrepreneurial literature that has recognised entrepreneurship as an integral element of economic advancement, there is a growing interest in entrepreneurship in China (Zheng *et al.*, 2009). Distinctively, Yang and Li (2008) proposed that these institutional transformations have an enormous impact on entrepreneurship in China, which has subsequently drawn the interest of many scholars in the field of entrepreneurship (Lu and Tao, 2010). Among these, many researchers put more emphasis upon studies on entrepreneurial institutional environments, claiming that it has a significant impact for entrepreneurship, innovation and economic growth. However, Ahmad and Xavier (2012) suggested that entrepreneurial surroundings faced by budding entrepreneurs from developing countries may differ from those in developed countries. This is because developed countries may have more institutional support, as well as a more advanced education and training systems that could support entrepreneurship activities and environment. This mirrors Lingelbach *et al.*’s (2005) call for further understandings are needed to be developed in the context of developing economies, as “entrepreneurship in developing countries is arguably the least studied significant economic and social phenomenon in the world today” (p.92). Following this call, our paper focuses on specific contextual factors in China, which arguably may differ from those of developed countries (Song and Winkler, 2014). Specifically, this paper aims to examine the institutional environment for entrepreneurship, with a focus on policies and provisions at a regional level for graduate entrepreneurship, using Hangzhou city, Zhejiang province as a case.

**2. Current Institutional Entrepreneurship Environment in China**

China was a planned economy prior to 1980s, which did not allow for the development of private enterprises (Groves *et al.*, 1994). Recognising the importance of entrepreneurial-led small and medium sized enterprises (SMEs) in providing social stability and economic prosperity, a policy of economic reforms that turned a centrally planned economy into a market-oriented economy was adopted post 1980s by the Chinese government (Chu *et al.*, 2011). SMEs comprise 99 per cent of enterprises and provide 75 per cent of the nation’s jobs in urban areas (China Development Bank, 2007). As a result, China experienced an unprecedented economic growth of 9 percent annually on average in the last three decades (Fung *et al.*, 2006a, 2006b), with GDP Per capita rising from US$173 in 1980 to US$3,603 in 2009, an increase of 21 times (Bin *et al.*, 2010). This astounding achievement and transformation is attributed to the re-emergence of the private sector where its people gain more economic freedom through the ability to engage in entrepreneurial activities by forming private enterprises (He, 2009).

According to the Global Entrepreneurship Monitor (GEM) China Report published by Tsinghua University, the overall entrepreneurship index in China is ahead of those of developed countries (Gao *et al.*, 2008), suggesting the phenomenon of entrepreneurship in China has experienced rapid developments in recent years, especially after China’s accession to the World Trade Organisation (WTO) (Iles and Yolles, 2006). Since entrepreneurs and small businesses are signiﬁcant contributors to economic growth and employment creation for nations, establishment of small businesses and success of entrepreneurs are therefore being perceived as important at the policy level (Chu *et al.*, 2011) in China. Specifically, according to the GEM theory, the entrepreneurial climate/context has a deep effect on entrepreneurial activities: an ideal entrepreneurial climate will produce more entrepreneurial opportunities and sharpen people’s entrepreneurial capacity. Likewise, Ahmadetal (2010) proposed that the environment for entrepreneurship is important for new ﬁrm ventures. This mirrors findings from Beck and Demirguc-Kunt’s (2006) who argued that for new businesses to grow, it is important to strengthen the entrepreneurial environments. These views also echoes that of Wennekers *et al.’*s (2002) who argued that institutions inﬂuence the demand for entrepreneurship by creating opportunities available for startups.

However, Chu *et al.* (2011) argued that compared to entrepreneurs in other developed countries, those in emerging nations face more overwhelming challenges and problems, for example, inadequate infrastructure, poor macroeconomic policies, limited access to ﬁnancial capital. Their findings mirror those from Stevenson’s (1998), Kisunko *et al.*’s (1999) and Kiggundu’s (2002) stating that unfavorable institutional and regulatory environments are critical problems encountered by entrepreneurs. Supporting this, Atherton and Fairbanks’ (2006) findings suggested that effective institutional development is particularly challenging in countries such as China that do not have an established history of developing support infrastructures to enable entrepreneurship development.

Moreover, due to the change of the Chinese economic growth pattern, technological progress and improvement of organic composition of capital in recent years, the employment absorption effect stimulated by economic growth is trending downwards. Consequently, Zhu *et al.* (2011) observed that China is using the international ﬁnancial crisis as on opportunity, not only to respond to the crisis but also to accelerate the re-balancing and restructuring of its economy. Furthermore, the State has also introduced measures to enable SMEs to survive this economic downturn, including tax breaks for small businesses and reduction of other ﬁnancial burdens (China Development Bank, 2010). However, there was controversial debate in suggesting that the government supports (or has supported) entrepreneurship only to politically or economically strategic markets (Fornes *et al.*, 2012).

In China, the eastern region dominates private sector development, accounting for 67% of all private ﬁrms in 2005 and 66% of private sector employment. By contrast, in Western China, levels of private business ownership and gross domestic product (GDP) are much lower (Atherton and Smallbone, 2010). Zhejiang province is situated in East China and this economic region (including city of Shanghai and Jiangsu province) has been one of the China’s key economic engines and has made a remarkable contribution to China’s economic strength (Zheng *et al.*, 2009). China has a strong tradition during the reform period of local experimentation and adaptation of central government policy to local economic development needs (Li and Rozelle, 2003). As such, an emphasis on local decision-making about policy formulation and implementation is equally important because it is at the local level that policymakers can get close to the real needs of entrepreneurs and their businesses (Atheron and Smallbone, 2010, p. 226). As such, a few researchers investigate the issues of entrepreneurship by narrowing down their focuses on a city (cities) or province in this region. For example, Krug and Hendrischke (2002) collected survey data on three provinces with special attention to Zhejiang and Jiangsu in order to study the linkage between the emergence of successful entrepreneurship and China’s economic growth. However, little research has focused on regional policies and provisions in promoting graduate entrepreneurship and solve the difﬁcult situation of university graduates’ employment.

**3. Higher Education, Employability and Entrepreneurship: Status Quo in China**

There is a rapidly expanding literature on employability, enterprise and entrepreneurship. However, there has been considerable confusion about the precise meaning of these terms (Sewell and Dacre Pool, 2010). Unfortunately, the term “employability” is sometimes used interchangeably with “enterprise”, and similarly, enterprise and even employability are sometimes confused with “entrepreneurship” (Shi and Sewell, 2011). This is understandable but often causes confusion. In terms of employability, enterprise and entrepreneurship, the deﬁnitions in the Chinese context are generally compatible with those used in the western context. In general, employability is perceived as a critical requirement both for business organisations and for individuals, such as graduates who are seeking to make successful careers in an entrepreneurial way (Nauta *et al.*, 2009). There is however, perhaps a different emphasis in the use of the word entrepreneurship with Chinese often using the term “entrepreneurial spirit”, referring to a package of qualities including; innovation, creativity, willingness to take risks and in particular, attitude and motivation, which they believe can be developed in all students and graduates. For this research, it is this emphasis on the meaning of the entrepreneurship spirit that was adopted.

Since 1999, the Chinese Government has started to release more university places across the country. As a result, higher education (HE) has changed from “privileged education”, with around top 20% of students who succeed and pass their “Gao Kao” (national exams required to enter university) to “public education” (approximately 80% of students each year are able to enter university). Moreover, the “one child” policy has also led to the perception of considering their child as the single most important investment by many families, the result being that parents are motivated to support their child to the highest education where possible. Furthermore, the immense economic growth has also made it increasingly the case that HE qualiﬁcations are essential to access the job market (Shi and Sewell, 2011). All these factors contributed to the increase in the number of students pursuing HEs, which has seen a significant growth in graduate numbers. In 2008, there was a record of 5.6m graduates, nearly 650,000 more than the year before. In 2009, 6.1m were graduated (China Conﬁdential, 2009) and in 2011, there were approximately 10m Chinese students seeking employment (Shi and Sewell, 2011).

This phenomenon has been accompanied, in recent years by declining numbers of university leavers who regard themselves as suitably employed. On an average, 30 per cent of graduates were unsuccessful in the job market (Wang, 2008). This high rate of graduate unemployment is mainly due to rapid structural changes in the economy, which the education system cannot keep up with. Moreover, it is also affected by the global economic and ﬁnancial crisis and a considerable number of companies decreased their need for employment (Hong, 2011). In order to meet an increasing job demand for 50 million people entering the workforce annually and an estimated three million workers laid off by the state run sector (Liao and Sohmen, 2001), recognising employability and entrepreneurship education as key factors in helping to sustain China’s economic growth, the Chinese government places enhancing student employability at the strategic level and promotes graduate entrepreneurship. For example, “the employment priority strategy” and the university graduates’ employment is considered as the primary assignment of implementing the more positive employment policy in “the Outline of the Twelfth Five-year Plan for National Economic & Social Development of the People’s Republic of China”. These strategic initiatives to promote graduate entrepreneurship are supported by academic research findings. For example, Smallbone and Welter (2001; 2006) found out that the shape and pace of entrepreneurship in the emerging economies is significantly determined by the dominant influence of the institutional environment, which includes higher education.

In China, a series of pilot projects on graduate entrepreneurship education were carried out (Millman *et al.*, 2008; 2009; 2010), with an effort to roll-out entrepreneurship education at universities. This is followed by a new national graduate entrepreneurship initiative which was launched in 2009 by the Ministry of Education (MOE), in conjunction with the Chinese Communist Youth League. Despite all these attempts, the rate of graduate entrepreneurship appears to be low (Bernhofer and Li, 2014). According to the data of “Social Blue Book” published by the Chinese academy of social sciences, the proportion of university graduates in entrepreneurship in 2007 is 1.2%, which is considerably lower, compared with the actual number of students who start enterprises in the USA which accounted for 20% of the total (Xin *et al.*, 2008). This rate is growing at a very slow pace, with 2.3% of graduates who chose to start their business ventures in 2014 (Chinese Graduate Employability Report, 2014), which is slightly higher than that in 2012 at 2%. Specifically, the success rate for graduate entrepreneurship is lower, and according to statistics, the proportion of graduates’ success in entrepreneurship in Guangdong province is only 1%, whist the success rate in Zhejiang province is the highest of the whole country merely at 4% (Wei, 2009). This provides a case for further understanding of the institutional environment for entrepreneurship in Zhejiang province. The case featured below is drawn from Hangzhou city, where entrepreneurship activity and success rate is quite advanced. The aim of the case study is to describe and analyses the policies and provisions of local institutional environments for graduate entrepreneurship, set within the context of a wider institutional frame.

**4. Case of Zhejiang province**

*4.1 Policies and provisions*

Government policies refer to the government support to start-ups in policy making and regulations. In recent years, both the central and local government issued a series of countermeasures to strongly support and encourage entrepreneurship in general, and graduate entrepreneurship, in particular (Hong, 2011). The “Decision” made in the Third Plenary Session of the 18th Central Committee of the Chinese Communist Party (CCP) 2013 was widely considered to be the blueprint for comprehensively deepening the reform. This “Decision” calls for changing attitudes of graduate employment, encouraging multi-channels for employment and promoting entrepreneurship which in turn improves employment overall – “Dazhongchuangye, wanzhongchuangxin” (entrepreneurial and innovation). In Zhejiang province, a series of policies and provisions were issued to encourage the implementation of the “Decisions”. These are following categories:

*(a) Policies and provisions supporting graduate start-ups*

1. Exemption of administrative fees for business start-ups - all graduates who started their businesses and registered within 2 years after their graduations can be exempted of all administrative fees for the first 3 years.
2. Small grants and loans – This will be issued to those graduates who are willing to start their business ventures in less developed areas and/or cities at county level within a 2 years’ period at the basic interest rate of central bank.
3. All levels of local government should provide a service agent role in eliminating graduate entrepreneurs’ concerns over their social securities, e.g., residence, labour relations and social insurances by offering relevant services.
4. Universities will maintain students’ registration period between 1-3 years if any student start high-tech ventures while they were studying.
5. “yizhiduozhao” – Widen market entry opportunities by allowing graduates to be able to register more than 2 business ventures in one registered address. This typically refers to ventures in e-commerce, creativity industries such as software design and games. In association with this, reform of administrative approval process with an aim to reduce enterprises’ burdens, and improve efficiency.
6. Encouraging internet entrepreneurship – small grants and loans will be provided with priority to graduates who start their ventures online within the first 2 years of their graduation.

*(b) Policies and provisions for graduate employment*

1. Develop channels for employment which are suitable for graduate level. This includes: develop advanced manufacturing industry as well as industries of high-tech, labor-intensive, service and intelligence-intensive.
2. Encourage SMEs to employ graduates. Local government will provide small grants and loans to those SMEs recruiting recent graduates (graduated within 2 years).
3. Unemployment Support – Within 6 months of graduation, graduates can register with local government as unemployed. Employment providers would provide advice on career development, employment and business startup, free of charge.

*(c) Enhance and promote graduate entrepreneurship education and employment*

(1) Embedding entrepreneurship education within the curriculum – developing bespoke courses in fostering an entrepreneurship attitude, motivations, capabilities and skills. Organising students to participate in practical venturing activities in gaining practical knowledge and skills.

(2) Developing and training teaching resources – improving the overall competence of teaching teams at the HE institutions with a focus on entrepreneurship. Establishing entrepreneurship support centers, industries associations and enhance the partnerships between the HE institutions and Social Human Resources Services providers.

(3) Developing entrepreneurial projects database – Collecting, evaluating and disseminating projects with commercial values and feasibility. Establishing a system which collects information of entrepreneurial mentors, and one linking mentors with potential entrepreneurial projects in promoting the commercialization of entrepreneurial ventures.

(4) Incubation – Establishing incubations on campus with an aim to set up 30 incubations at provincial level and 100 incubations at city level between 2014 and 2017. These will provide a platform for an entrepreneurship forum, promoting entrepreneurial projects and disseminating outcomes through business competitions.

*4.2 Entrepreneurship ‘Dream town’: Hangzhou*

With the advance of information, technology, communications and the internet, Hangzhou is being perceived as the top tier city in China for entrepreneurship. Among the national entrepreneurial activities and outcomes, Hangzhou is famous for its entrepreneurship environment in general, for graduate business start-ups in particular and is being labelled as ‘dream town’. Within the city, there are well established entrepreneurial ecosystems with top entrepreneurial firms such as Alibaba and 163.com. They act as role models for graduates who wish to start business ventures, as well as providing talents for business ventures. Moreover, there are a number of emerging entrepreneurial ventures which have developed rapidly. Particularly, according to a post 90’s graduate entrepreneurship report (2015), more than 80% of graduates consider starting a business online or belong to the new media sector. This attitude towards entrepreneurship is different from those who were born in 1980’s who considered becoming a civil servant working in government as their top choice for graduate employment.

**Conclusion**

The aim of this paper is to contribute to debates about the role and character of local policies to promote entrepreneurship in a transition environment, particularly with a focus on graduate entrepreneurship. Specifically, it described and summarised the institutional environment for graduate entrepreneurship in Zhejiang province. Zhejiang province is used as a case study due to its high level of entrepreneurship activities at all levels in order to explore the role of local policies to promote entrepreneurship. These policies provide the graduate entrepreneurs with taxation relief, ﬁnancial support, training and insurance subsidies and some other preferred policies. In some places, the relevant policies are made with great effort and in great detail.

Hangzhou was used as a successful case to demonstrate the outcomes of entrepreneurship. However, little evidence suggested that this positive outcome is significantly correlated with the local favorite policies and institutional environment. We argue that the local graduates of the HE institutions are mainly from the region, and they may have been influenced over a period of time by the entrepreneurial spirit from their direct families. Moreover, local government proactively promote graduate entrepreneurship environment. For example, in Hangzhou City, on the one hand, the Hangzhou government solves the housing problem for entrepreneurs with certain qualiﬁcations; on the other hand, it propagandizes its policies through various channels to make its citizens aware of them, including through the mass media and by handing out graduate entrepreneurial guide handbooks (Bureau of Employment Promotion by Entrepreneurship in Ministry of Human Resources and Social Security of People’s Republic of China, 2009, pp. 361-6).

The other key finding at the policy level is that the concept of employment is closely associated with entrepreneurship, and this is evident in the policy support at the higher education institutions. For HE institutions, service and support for graduate entrepreneurship is being perceived as countermeasure for graduate employment, but is wider than employment. Data collected from the top 20 entrepreneurial HE institutions suggests that 85% of HE institutions consider the aim of graduate entrepreneurship is to improve the students with competence of start a business venture: including risk taking, market opportunity seeking and recognition and the utilisation of resources.

As China’s economy is currently under transition towards an innovation driven status, it will be exciting to see how, in the future graduate entrepreneurship will develop. Encouraging students’ entrepreneurship is not only the contingency measure for the employment pressure in the short-term, but also the strategy to promote Chinese economy into the entrepreneurial economy in the long-term.

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