



Government policies and firms' entrepreneurial orientation: Strategic choice and institutional perspectives

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ABSTRACT

The relationship between government policies and firms' entrepreneurial orientation has been a controversial topic in entrepreneurship research. This paper examines how economic policies promulgated by the central government can attempt to shape the entrepreneurial orientation of privately owned firms in China. Instead of adopting the environmental deterministic view, this paper builds on strategic choice theory together with institutional theory to propose that the entrepreneurs' perception of new policies and the surrounding institutional environment interact to shape firms' behaviors, such as their entrepreneurial activities. Specifically, the greater the entrepreneurs perceive the effectiveness of new policies to be, the more likely their firms will capitalize on such policies by engaging in entrepreneurial activities. Private firms based in institutionally developed regions, however, will not be motivated to engage in as many entrepreneurial activities as those in regions with lower levels of institutional development. Additionally, the relationship between the perceived effectiveness of new policies and entrepreneurial orientation is mitigated for firms with political connections.

1. Introduction

A well-documented claim in the field of entrepreneurship is that entrepreneurial activities are drivers of economic development (Acs & Szerb, 2007; Stel, Carree, & Thurik, 2005). Prior research has devoted a significant amount of effort to understanding how to devise government policies to stimulate entrepreneurial activities (e.g., Peng, Yamakawa, & Lee, 2010). Indeed, institutions, as those that establish the rules of the game, dictate entrepreneurial activities (North, 1990). While government policies shape various levels of the institutional framework, such policies have a significant power to influence entrepreneurial activities (Minniti, 2008). As previous studies indicate, government policies related to entrepreneurship include financing, taxation, regulations of trade, and encouragement of innovation (Minniti, 2008). Kreft and Sobel (2005), for instance, suggest that it is necessary to foster an environment with low taxes and fewer regulations and secure private property rights to stimulate entrepreneurship. Although these findings are insightful, three gaps remain in this stream of research on the association of government policy and entrepreneurship.

First, to examine the role of government policies in stimulating or constraining entrepreneurial activities, some prior research directly links the initiation of government policies with entrepreneurial

activities, leading to mixed results (Minniti, 2008; Zhou, 2017). Thus far, the question of whether the government policies are able to affect entrepreneurial activities positively is far from resolved (Capelleras, Mole, Greene, & Storey, 2008; Minniti, 2008). The premise of such a view is that government policies as a part of the institutional environment affect the entrepreneurial activities directly. Clearly, such theorizing is based on the view of environmental determinism (Aldrich, 1979; Hrebiniak & Joyce, 1985), which attributes organizational behavior and change to natural selection by the environment. In contrast, scholars holding the voluntaristic view, based largely on the strategic choice perspective, suggest that the influence of the environment on firm behavior is not direct but must be filtered through the perception of the top management (Astley & Van de Ven, 1983; Child, 1972). It is the top management's perception and/or evaluation of the environmental change (i.e., the promulgation of new government policies in this paper) that must determine the actions to be taken (Aldrich, 1979; Child, 1972). Accordingly, it may not be appropriate to examine the direct effects of new government policies on the rate of new start-ups. Following the voluntaristic view based on the strategic choice theory, it is more appropriate to associate the top management's perception and/or evaluation of newly promulgated policies with entrepreneurial activities (Jacquemin & Janssen, 2015).

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Second, prior studies primarily focus on the implications of new government policies on the start-up or self-employment rates at the industrial, regional, national and supranational levels (Minniti, 2008), while in reality, the promulgation of new economic policies impacts not only potential entrepreneurs but also incumbent firms (Doh & Ii, 2004). The investigation of the effects of policies on entrepreneurship should not leave out effects on the corporate entrepreneurial activities of incumbent firms. However, only scant research exists on how new government policies affect the extent to which incumbent firms engage in entrepreneurial activities (i.e., entrepreneurial orientation).

Third, strategic choice theory highlights the role of the context in which decision makers must make their choices. Although Child (1972) notes that the institutional environment in which strategic choices are made is significant, prior research seems to overlook this particularly important element of context. According to institutional theory, formal and informal institutions must set the rules of the games and shape actors' behavior and performance in a profound manner (North, 1990). In particular, in transitional economies such as China's, given the insufficiency of formal institutions and the pervasive use of informal institutions to compensate for the shortcomings of the system, there are many environmental uncertainties including regulatory and market uncertainties (Gao, Lin, & Yang, 2017; Su & Si, 2015). In addition, the disparity among regional institutional developmental levels has led to a more salient role for the institutional environment in influencing firm behavior and change. Overlooking the effects of any specific institutional environment is thus a significant and inappropriate omission.

To fill in these gaps, this paper focuses on the context of China and examines how the perceived effectiveness of new policies promulgated by the central government enhances the entrepreneurial orientation (hereafter, EO) of private firms in China. In addition, this paper investigates the role of both formal (i.e., regional level of institutional development) and informal institutions (i.e., political connections) in influencing the effects of new policies perceived by entrepreneurs of incumbent firms. Previous research indicates that entrepreneurial behaviors cannot be fully understood without considering the context in which those behaviors are observed (Autio & Acs, 2010). To transition from a planned economy to a market economy, a vibrant private sector is expected (Zhou, 2011, 2013). To this end, governments in transitional and/or emerging economies usually deregulate, which means that governments in such economies continually enact new economic policies in the hope that such policies will encourage the entry of new businesses (Dai & Liao, 2018: p. 14). For instance, the central government of China promulgated the "Thirty-six Principles of the Nonpublic Economy" in 2005 to foster a better environment for the development of the private sector. The Chinese government has recently identified entrepreneurship and innovation as a central part of its public policy with the goal of creating an ecosystem supporting the creation of new ventures (Bruton, Zahra, & Cai, 2017: p. 3). In addition, there are variations in the regional institutional development in China, and informal institutional arrangements such as political connections are also pervasive (Peng & Luo, 2000). In summary, China offers us a great context within which to explore our research question.

The sample used in this study includes 2112 private firms. The results of the paper show that the more effective entrepreneurs perceive the new policies to be, the more likely their firms are to engage in entrepreneurial activities (i.e., the higher the EO). Furthermore, for firms located in regions with a higher level of institutional development, the positive effects of perceived new policies have less effect on EO. In contrast, in regions with lower levels of institutional development, the association of perceived new policies with EO is more pronounced. In addition, entrepreneurs' political connections weaken the relationship between positively perceived policy changes and EO.

The contributions of this study include the following. First, this paper contributes to the research on the antecedents of EO by integrating strategic choice theory and institutional theory and emphasizing the importance of performing a distinct analysis of how the

results of the perceived effectiveness of government policies hinge on the regional institutional development and the presence of political connections. Second, to reconcile the mixed findings in the prior literature, this paper highlights the importance of examining the entrepreneurial perceptions/evaluation of government policies instead of government policies per se. This paper emphasizes that the new policies are effective only if they are perceived positively by decision makers, indicating that entrepreneurs' sense-making of new policies matters. Third, this paper contributes to the research on the association of government policies and entrepreneurship by considering the effects of policies on firm-level entrepreneurship, supplementing prior research on how government policies foster the new entries of potential entrepreneurs.

2. Literature foundations and hypotheses

The current study investigates the relationship between government policies and firms' entrepreneurial orientation and examines how economic policies promulgated by the central government shape the entrepreneurial orientation of privately owned firms in China. Minniti (2008) indicates that government policies shape the institutional environment in which entrepreneurial decisions are made; thus, they are able to affect entrepreneurship and entrepreneurial orientation and activities. Gao et al. (2017) observe that the institutional environment can create environmental uncertainties that can be classified as regulatory and market uncertainties. Regulatory uncertainty is directly caused by changes in government policies, while market uncertainty is induced by changes in market conditions, such as cost variations of key production factors including raw materials, energy and labor. In China, as in many other transitional economies, the government is powerful because it controls critical resources such as land and bank loans and can arbitrarily intervene in economic activities through administrative approvals and inspections (Dickson, 2003; Gao, 2007; Peng, 1997; Schmidt & Cummings, 1976). In addition, the government policies in China's transitional economy are shifting as regulators, law makers and opinion makers increase their understanding of market forces (Acemoglu & Robinson, 2012). Accordingly, entrepreneurs are subject to a significant amount of environmental uncertainty created by the various institutional environments in China. Thus, Bruton and Ahlstrom (2003) indicate that the institutional environment in China is different enough that Western entrepreneurs need to be careful to ensure they understand the institutional differences when participating in the market. Other scholars such as Sawyerr (1993) investigate the environmental uncertainty in Nigeria and observe that the economic and political legal sectors of the environment are more salient for Nigerian manufacturing executives than for their American counterparts. Therefore, it is clear that environmental uncertainty varies with institutional environments in different countries (Bruton & Ahlstrom, 2003; Su & Si, 2015).

2.1. Government policies and entrepreneurial activities

Government policies shape the institutional environment in which entrepreneurial decisions are made and are thus able to affect entrepreneurship (Minniti, 2008). However, entrepreneurs are left without reliable means of overcoming uncertainty in political institutions (Bylund & McCaffrey, 2017). Prior research has discussed the implications of government policies on the rate of start-ups and on the distributions of productive, unproductive and destructive entrepreneurial activities (Baumol, 1990; Castaño, Méndez, & Galindo, 2016). In his classical work published in 1990, Baumol (1990) noted that the supply of entrepreneurs remained largely stable across all periods of history. Just as Mises (1949) put it, entrepreneurs could be found anywhere and anytime. In other words, the supply of entrepreneurs and, consequently, the rate of start-ups remain independent of government policies. However, the distribution of productive,

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