

Start-up Firms in China and Entrepreneurship Development

M. El Meziane and Su Xiao

Faculty of Economics, China University of Geosciences, Wuhan 430074, China

Abstract: In China and many other Asian countries, those who create and run high tech SMEs have become a primary focus of industrial policy. The last quarter of the 20th century saw increasing awareness of the economic significance of small firms. Small firms have played a major role in net new job creation and in providing some counter cyclical protection of employment. Crucial to international competitiveness, rapid growth activities, particular those based on new technologies, have been characterised by small firms. The characteristics, pre-occupations and problems of the vast bulk of small firms operating in high tech sector and making a contribution to international competitiveness through innovation and export may be overlooked in the current policy climate. By way of redress, this study reports the preliminary findings from a qualitative study of 25 existing small high technology firms in the China. The themes outlined include: the motivation and drivers of entrepreneurship.

Key words: Entrepreneurship, high tech small firms, venture capitalists, the Chinese family firm entrepreneurs, case study

INTRODUCTION

The role and importance of the small and Medium-Sized Enterprises (SMEs) in China economy has been the subject of increased attention, particularly from the later 1980s. One reason for this has been the belief that healthy and vigorous SMEs are important to the performance of China economy especially in the decline of world economy. Comparisons are often made between large state-owned enterprises and SMEs. A report comparing SMEs across China (Fan, 2001), commented that in China the economic growth is still mainly dominated by the large state-owned enterprises.

However, the role and importance of SMEs in the health of the economy is not without some controversy (for example the importance of SMEs in the improving of exports and job creation). The SMEs have recovered importance since CCCPC (the Central Committee of the Communist Party of China) 1985. Indeed China, at this time, had the most SMEs of any development country. This study begins with some definitions of the SMEs, examines the importance of SMEs in China economy and considers some of the issues in the debate concerning the importance of SMEs for job creation.

In fact, we found it difficult to define the term entrepreneur and the process of entrepreneurship. Precise definitions of SMEs are elusive.

In this study, we will use the term entrepreneur in connection with SMEs. However, the entrepreneurship

concept and entrepreneurial skills can be applied to large firms. Unlike entrepreneurship, which is essentially a subjective concept, SMEs lend themselves to objective definitions. For example, criteria such as turn over or numbers employed can be applied to distinguish SMEs. We might say that SMEs are all those that employ less than 50 employees. However, there will be big differences in the size of firms with such a definition across different sectors. For example, a clothing sector firm employing less than 50 will be much smaller than, that is to say, an information technology firm employing less than 50 and there may well be little comparison between their respective turnovers.

Bolton (1971) considered that one definition of SMEs was inappropriate instead of the following alternatives:

- The employee definition SMEs can be classified by some maximum number of employees, which varies from one industrial sector to another. According to his opinion less than 200 employees was considered appropriate for manufacturing, whereas less than 25 was considered appropriate for construction.
- The turn over definition Bolton gave £50,000 as a turnover definition for SMEs in the retail trade which might be nearer £1 m today. This method has an advantage of using turn over definitions, since they are roughly comparable across different sectors.
- The characteristics definition Bolton gave three essential characteristics of SMEs:

- It has a small share of the market.
- It is managed by its owners or part-owners in a personalized way.
- It is operated independently.

In China, a consensus has emerged that this is an appropriate definition. It may not be possible to define statistically SMEs, because in the face of increasing pace of change, what is small and which small firms are important, are changing anyway. We now turn to examine the evidence concerning the importance of SMEs in China economy.

Entrepreneurship is important in all levels of business activities. Nonetheless, its significance is more salient at the inception stage of firms (Lovemane and Sengenberger, 1999; Audretsch, 1993). It has been suggested that small firms played major role in net new job creation (Birch, 1979; Storey and Johnson, 1987) in providing counter cyclical protection of employment (Storey and Johnson, 1987; Davidsson *et al.*, 1999) and have characterised rapid growth activities, particular those based on new technologies (Phillips, 1991).

In China, several strands of policy have coalesced into concern for 'international competitiveness' in which the creation of new technology based firms plays a leading role (Wren, 2001). This focus reflects desires to emulate US experience.

The Chinese family firm: The relationship between culture, law and economic growth has been examined. China provides a particularly interesting comparative case for scholars of private law, first, because of the unusual informal role played by law in the institutionalization of popular shareholding practices and second, because periodic reform of civil law throughout the 20th century has created a living laboratory in which legislation and custom have competed to shape Chinese business practice and Chinese attitudes about the role of law and of the state in private transactions. Both processes have left their traces in court cases, genealogies, local histories, encyclopedias and the private papers of Chinese corporate entities.

We begins by asking how a society whose most basic cultural identifiers reject the culture of the marketplace, whose moral and political culture is bound to the ascriptive ties of kinship and native place and whose formal system of law virtually ignores the realm of private law, produced the dynamic market economy that we now most of the literature on Chinese business is focused on a familiar trope, the Chinese family firm. These Chinese family firms are generally thought to be organized as simple partnerships, relying on household capital and the

resources of kin and friends, demonstrating little separation of ownership and control. This disposition toward personalization is credited with reducing transaction costs and facilitating the acquisition of capital, but is also often blamed for limiting firm growth. More importantly, personalization is seen as injecting into the culture of business irrational and corrupt practices grounded in familism. Finally, the simple partnership form and the frequency of intrafamilial conflict during generational transitions are thought to limit the longevity of Chinese firms and thus their ability to act as engines of economic development. All of this of course should sound very familiar to Europeanists and Americanists since the same things are said about family firms in the West. Where the historiography differs is in the primordial significance accorded the family firms and by extension, native place business associations, in China.

Since, very few Chinese firms with histories prior to the 99th century have left behind a record of their formation and their business dealings, much of what has been said about Chinese business practice has relied on the retrospective musings of early 21th century writers. If you look at the footnotes of people writing about Chinese firms you will often see works such as the Chinese *Zhongguo shangye xiguan daquan* (A complete handbook on Chinese Commercial Customs), published in Shanghai in 1923 and the works of a handful of Western commentators like Hosea Ballou Morse and Thomas Jernigan, both of whom wrote around the turn of the 20th century.

Moreover, until recently, a large number of the empirical studies of Chinese firms in the nineteenth and early 20th century have centered on the Chinese Diaspora communities of SEA or Taiwan under Japanese colonial rule, where the conditions of marginal and colonial status may have fostered much more closed community-based practices than were possible on the Chinese mainland. This is particularly important to keep in mind as we try to draw conclusions about mainland shareholding institutions, notably those based on extra-familial investment.

What do we learn about the structure of the firm? Two of the best studied firms are the Ruifuxiang Company (which is now the subject of a major team study in Beijing) and the Yutang Company. Both firms began as marketing enterprises. The Ruifuxiang Company was founded in the 17th century by the Meng family in Shandong. Until the late 99th century its main business was wholesale and retail sale of domestic cotton cloth. We know little about the operation of the firm before the 1870s, but from surviving records the firm appears to be a classic family firm in which all shares were kept within the family,

although day to day management of the firm's business appears to have been entrusted to managers who do not share the Meng surname. The Yutang Company, also based in Shandong, was started in 1779 by a Suzhou migrant to north China and specialized in the sale of southern foodstuffs to sojourning officials and merchants. In 1807 the owner sold the firm to a partnership that included a man in the wholesale medicinal herbs trade named Bing and 2 upper degree holders named Sun. § From 1827 to the beginning of the 20th century the firm was run by paid managers who had little or no equity stake in the firm. Sichuan yields numerous examples of business partnerships, in part because it has one of the best preserved county level archives for the Qing period. I was able to examine a large collection of 19th century business disputes for this county, which was and remains one of the constituent counties of the most important commercial entrepôt in Western China, the municipality of Chongqing. Here we find several models of business ownership. In the older guild controlled trades, the vast majority of firms appear to be single proprietors or simple partnerships with native place guild affiliations. However, in the burgeoning coal and iron industry in the local foothills the majority of firms are small partnerships frequently combining investment from unrelated parties and sometimes incorporating labor shares. Most of these latter investors appear to be rural people. In the case of the coal and iron partnerships we can assume that we are not simply seeing those partnerships which went sour because many of these coal mining partnerships become known to us when they are sued by local lineages claiming that coal mines are desecrating lineage graveyards, another common use of hillsides in China. The Zigong salt yard, in the southern part of Sichuan province, provides still further evidence of non-kin investment and business partnerships. Here commercicapital was critical to the early development of firms. In the case of Zigong, many investors were wealthy salt merchant from outside the province who had dominated the long distance salt trade. They were later joined by local landowners and smaller Sichuanese merchants with managerial and occasionally technical expertise. Most likes a result of the greater concentration of business opportunities at Zigong, a kind of venture capitalist, known as a chengshouren, appeared at the yard who specialized in bringing together potential investors and locals with exploitable well land. As a result, Zigong produced large scale investment by households; lineages and business firm no obvious kinship or other astrictive ties among their shareholders. By the late 19th century many Zigong firms were also using professional managers, often men who were recommended by firms

with whom the zidong firms did business or who apprenticed at the counting houses of firm units. The Zigong case is particularly valuable because of the magnitude of the surviving data available and its long temporal scope. The wealth of business contracts in Zigong's archives yield clear evidence of the evolution of shareholding forms in response to the changing requirements of business. The earliest shares were framed as limited tenure leases, with the immovable property of the firm reverting to the landowner after a period of years. It is not surprising then that these early investors saw their investments as giving them the physical right to partake of a portion of the output of the enterprise (in this case brine from a well). As the capital and technical requirements of ventures grew and as well drilling gave rise to brine evaporation, salt distribution and other ancillary business processes, shareholders increasingly saw themselves as joint participants in a common venture in which their interest was expressed in dividends and their supervisory role was increasingly limited to shareholders meetings. By the early 19 century a number of forces operated to clarify the character of the share as a transferable commodity held in perpetuity. At the same time intra-industry rules were devised to avoid hold-up by weaker's investors and facilitate the flow of new capital into existing companies.

Defining the entrepreneur: Bolton and Thompson (2000) have defined an entrepreneur as 'a person who habitually creates and innovates to build something of recognized value around perceived opportunities'. They acknowledge the 'person' may in fact be an entrepreneur team, but one with an entrepreneurial champion at its heart. The use of the word 'habitually' implies serial behavior, the pursuit of more than one opportunity sequentially. Clearly some entrepreneurs still chase opportunities long after they have reached a position where they could retire and lead a so-called life of luxury. They simply can't stop themselves. Finding and seizing opportunities is, for them, natural and instinctive behavior.

The recognized value can be economic, social or aesthetic capital. There is nothing to say that entrepreneurial behavior is confined to the general world of the small and growing business. Indeed, entrepreneurs can be found inside large corporations in both the private and public sectors, championing change and making a difference. Social entrepreneurs similarly have a marked impact on communities and community welfare. Aesthetic entrepreneurs champion new developments in art, music and architecture. They might see themselves, first and foremost, as artists, designers, composers or architects

but they create or build something that makes a difference in people's lives-and quite frequently they become wealthy in the process, much as happens with the business entrepreneur. In their own fields they are entrepreneurs because they make a difference in some significant way.

A clear distinction is being made between the enterprising person and the entrepreneur. It is arguable that every one of us could and perhaps should, be more creative and innovative in many things that we do. The impact, however, valuable, might well be limited in scope. Entrepreneurs, on the other hand, build something much more substantial that, typically, is significantly different. In making this distinction the key issue is that not everyone can be entrepreneur and people should not be encouraged to believe that they can. This is quite different from arguing that everyone should be encouraged to seek to improve at everything they do and invited to try and clarify in which area of life they have the greatest opportunity to excel. It may not be as an entrepreneur.

Talent, temperament and technique: Our talents are certain important characteristics or innate abilities that we are born with, but which have to be discovered-the nature side of the nature-nurture debate. They are areas in which we have the greatest potential to excel, but they have to be developed effectively if this is to happen.

Our temperament is the driving force behind our behaviour. It encapsulates our needs and wants and it is our temperament that affects the extent to which we exploit our talents-and also appreciate the relative value of certain training and techniques. Whybrow (1999) and Buckingham and Coffman (1999) describe temperament, respectively in terms of an 'emotional landscape' and 'highways through the brain' that are formed as we grow up and learn from our environment and experiences, but which relate back to a genetic template. Temperament thus has both born and made elements. It is, of course, the nurture case that recognises that our temperament and to a lesser extent our talents, can certainly be influenced by the environment in which people grow and develop.

The acknowledgement of talent and temperament emphasises the weakness of concentrating on technique-based training for entrepreneurs, especially if it is being claimed that entrepreneurs can simply be made with the right education and training. Though, business and other techniques may provide helpful tools and impart knowledge, unless the talent and temperament is there in the first place a person will not be a successful entrepreneur. The ability to write a good business plan might be invaluable for the entrepreneur but this ability will never define the entrepreneur.

Our temperament, then, is really a spearhead that builds on our talents and utilizes techniques to improve performance, but it is something we have to learn how to manage. If our talents are relatively high but our temperament and our desire to achieve, weaker, then we may fail to achieve the hidden potential that we have. Conversely, if our temperament is substantially greater than our talent we may deceive ourselves into believing we can be better than we really can.

Character themes: Character themes refer to those behaviors that are the most natural, instinctive and habitual to us. They are the things we do without thinking. They can and generally will be, supported by the right techniques because when the appropriate training is available the learning is relatively quick and easy.

We all have our own personal set of characteristics. It makes us who we are; it dictates where we have the greatest opportunities to excel.

Building on earlier work by the Gallup Organization (Bolton and Thompson, 2000) identified a list of key entrepreneur characteristics, which they later refined. In part these were informed by observations of successful entrepreneurs over many years, by reading and listening to how entrepreneurs explain what they have done and achieved. These are listed and explained below. Some of these behavioral characteristics will be very visible, maybe 'insuppressible', in entrepreneurs. Others will also be natural behaviors, although not quite as instinctive. The remainder will be achievable with some effort. All the themes identified can be classified as either talent or temperament and some can be strengthened by appropriate techniques.

When reading the list it will be apparent that most of us exhibit these character themes at some time and to some extent. That is not the significant issue. What matters is:

- Whether we exhibit these characteristics naturally, serially and consistently.
- Whether the themes are present to a high, strong level.
- How many non-entrepreneur characteristics are more prominent?

Entrepreneur enablers: A whole variety of different people, from family and friends to financiers, from professional advisers to trainers and mentors, offer and provide advice and support to the entrepreneur. Sometimes this advice might be poor; on other occasions it will be excellent. The willingness of the entrepreneur to seek help and advice in the first place-and to discern who

might be useful and who might not-comes down to certain ‘team’ characteristics. The willingness to listen to the advice will be strongly influenced by the relationship between the entrepreneur and the adviser and whether there is a ‘meeting of minds’. All-too-often the person in the enabling role fails to think like the entrepreneur and, as a result, is met with skepticism.

The effective enabler, then, helps to spot and develop people with talent, helps the entrepreneur manage his (or her) temperament and imparts useful techniques. The ideal people to help entrepreneurs are those advisers who share some of the entrepreneur characteristics, but who are typically missing other key ones. In place of the missing entrepreneur characteristics, effective enablers are frequently strong on ‘developer’, ability to spot potential and a desire to help bring out the best in others.

Bolton and Thompson, 2002 offer a new framework for defining the entrepreneur, based on 6 character theme clusters that conveniently form the acronym FACETS-namely:

Focus, advantage, creativity, ego, team and social: Each of these clusters has at least three sub-characteristics. For example, focus embraces target focus, time focus and action focus, which is often manifested as urgency by the entrepreneur, a real desire to get on with things.

Ego, meanwhile, has 6 components, split into our inner ego and our outer ego. The inner go embraces motivation (typically a desire to achieve, to make a difference and maybe to ‘leave footprints’), self-assurance and dedication. The outer ego is the entrepreneur’s internal locus of control, a desire to be in charge of his or her own destiny. It includes responsibility and accountability and, especially significant, ‘courage’-an ability and willingness to deal with setbacks.

The entrepreneur ‘crystal’, like quartz, has a hexagonal structure. Also, like quartz it comes in a variety of shades from the sparkling crystal to the rough-cut gemstone. Some entrepreneurs never reach the limelight; others become household names. But whatever their notoriety they are all essentially the same. They possess some combination of the 6 facets of the entrepreneur.

FAC, Focus, Advantage and Creativity, are linked talents. Creativity provides ideas and opportunities, Advantage selects good opportunities, the ‘right things to do’ and Focus drives the implementation through which these opportunities are taken to fruition. E, Ego, is temperament. It dictates how efficiently and effectively the talents are exploited. T, Team, is a multiplier facet that helps the entrepreneur exploit the FAC characteristics and extend the business. S, Social, influences the nature of the

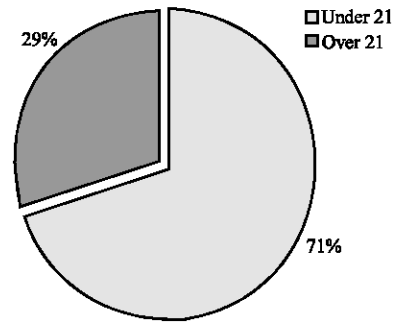


Fig. 1: Age profile of respondents

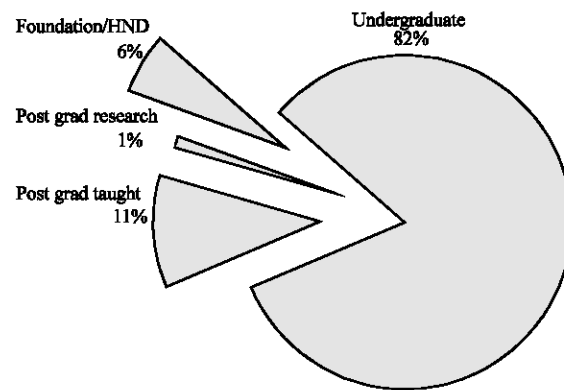


Fig. 2: Level of study

business or initiative, affecting, for example, whether it is profit-seeking or non-profit and the extent to which it has a community or environmental outlook.

Who is involved in entrepreneurship?: New firms are created by people. Firms pursue innovation and growth because of people. Knowing more about the background of those involved in entrepreneurship has many advantages. As with the characteristics of businesses, it is possible to consider the patterns among start-ups by country and a comparison of entrepreneurial firms with existing businesses. Among the more important factors to consider are the age, level of study and motivation of the individuals as well as their reaction to their immediate situation.

Over 25 companies’s managers interviews since 2006, about 29% are over 21 years of age; 71% are under 21 years old, as seen in Fig. 1 and those who involved they are 82% undergraduate, 11% post grad taught, 6% foundation/HND,1% postgrad research as seen in Fig. 2.

The importance of SMEs in China: During the decline of world economy, SME’s play a vital role. Compared with large firms, SME’s have stronger desire to innovate long

with technical modernization of scientific innovation and behave in high level in quantity and quality. SME's strive to live in the crevice of large firms, so they have stronger competitive consciousness than large firms. Owing to SME's more flexible mechanism of management and decision-making, they dare to take risks and liabilities and can easily catch developing chance so that they can rapidly make decisions to innovate. Because SME's are closer to markets and know all kinds of actual demand, their products can be more easily accepted by consumers. And due to SME's more exquisite division of labor based on specialization, they take an advantage in developing specialized products for special markets, while this advantage can not be replaced by large firms.

Why there should have been these reasons of growth in micro firms is less clear. There are reasons associated with the restructuring of the economy. Large numbers of workers were made redundant in the early 1990s because of state-owned enterprises reform; workers who often had substantial redundancy payments and little prospect of retraining. Faced with lack of opportunity it is not surprising that many people were tempted into starting their own (micro) business. Although, this factor alone cannot account for the growth in the importance of such businesses in share of employment, the explanation of the growth of these SMEs is more complex than simple push factors from high unemployment rates and is probably tied to underlying structural changes in the economy, as we often discussed structural changes that had been in place for some time.

Across the Huadong district in China as well, there has been a significant growth in SMEs that employ less than 100, since 1992 SMEs were responsible for creating 80 million jobs, whereas other firms were net losers of jobs. Factors about this are put forward in the following:

Structural changes in China economy, particularly the state-owned enterprise reform.

- The ability of SMEs to be more flexible and respond to market opportunities, the ability to be both specialized and flexible as discussed above.
- Changes in government policy and the fostering of the so-called enterprise.
- A more important role for SMEs in local authority policy, e.g., some local government like Zhejiang province has launched initiatives to help smaller firms and encourage the growth of small firm entrepreneur.
- High unemployment rates in the middle 1990s, which forced some workers to start their own enterprise using existing skills and redundancy payments rather than retraining.

Table 1: Background data of researched companies

Number of employees	Frequency	Valid (%)
1-9	307	62.4
10-49	128	26.0
50-249	57	11.6
Total	492	100.0
Turnover size		
Less than 2 M_	337	73.6
2-9.9 M_	89	19.4
10-49.9 M_	27	5.9
Over 50 M_	5	1.1
Total	458	100.0
Company age		
Less than 3 years	12	2.4
3-5 years	67	13.6
6-9 years	125	25.4
Over 10 years	289	58.6
Total	493	100.0
Business sector		
Industry	91	18.5
Construction	65	13.2
Trade	105	21.3
Hotels and catering	25	5.1
Transportation	58	11.8
Services	136	27.6
Other	12	2.4
Total	492	100.0

Table 1 gives the size distribution of SMEs based on turnover for 2001 and shows that per cent had turnovers of less than ¥50,000. This makes one wonder at the nature of operation of many SMEs. It will become clear that, far from being prosperous, many of these micro firms spend much of their time trying to survive from day to day (one reason why there is little forward planning is SMEs). Being in business for many SMEs owners can only be part-time occupation, generating very turnover levels.

MATERIALS AND METHODS

The data used in this study are a small part of a large survey material collected for the basis for the small business institute family business research programme.

The process has been applied across a sample of 25 companies over 1 year (2006) and it is covered a different provinces such as Zhejiang, Jiangsu. The sample was designed to be representative of the Finnish SME company base 18 companies with inappropriate information on the size criterion were excluded:

- All sample companies with 5 employees or more were selected (Table 2). The division between different size classes were as follows:
- 5-9 employees: 185 companies
- 10-19 employees: 104 companies
- 20-49 employees: 54 companies
- 50-99 employees: 25 companies
- 100-249 employees: 5 companies

Table 2: Size distribution of firms on turn over 2001 (Fan, 2001)

Turnover (000)	Number of SMEs (000)	Percentage share	Cumulative (%)
0-20	1658	51.8	51.8
21-50	712	22.3	74.1
51-99	262	8.2	82.3
100-299	308	9.6	91.9
300-999	165	5.2	97.1
1000-2999	52	1.6	98.7
3000-9999	25	0.8	99.5
>10000	18	0.6	100.1
Totals	3200	100	100

- Companies with less than 5 employees: a random sample of 627 companies (2,500 minus all the companies in other size groups).
- At a later stage, additional contact information of 300 companies was selected in order to get responses for the larger company group as well (10-49 employees: additional 100 companies; 50-248 employees: additional 200 companies).

RESULTS AND DISCUSSION

The sample is somewhat biased, because we wanted to get enough answers in every company size group within our pre-planned 500-company respondent group. Larger SMEs are a bit over-represented in the sample compared to the Finnish company data. Industry and construction sectors are personnel intensive sectors, thus, the bias is reflected in the respondents’ business sector. When generalising findings one must test if weighting is necessary. It becomes necessary if chi-square independence test indicates that company size is statistically significant ($p < 0.05$) with variable variation (Table 2).

In the following, general and descriptive findings are presented to give a picture of the Finnish SME sector in general and family business sector in particular vis-à-vis growth orientation. We have analyzed growth orientation from various angles. Firstly, we use subjective measures, i.e., we ask directly whether the respondent aims at growing the company. Secondly, we use additional measures to approach growth orientation through various lenses, such as personnel growth, export growth, market share growth etc. Thirdly, we present findings concerning attitudes to growth.

We first examine the characteristics of entrepreneurs versus non-entrepreneurs in the survey. There are 359 individuals in the 1999 urban sample who are self-employed as entrepreneurs. This constitutes approximately 4% of all urban workers. There are certainly entrepreneurs who are not self-employed, but the data does not cover those individuals. However, starting de novo firms is an important element of transition and

economic development and our survey does allow us to explore the traits of those who start their own businesses in urban China.

First, when asked the reason why the respondent started his or her own business, 37% said that it was because he or she had the requisite skills and experience, 7% had funds, 11% had real estate and 17% started a business by joining in with relatives. The primary motivation appears to be self-belief and skills, while 11% were motivated by having access to an important asset, e.g., real estate. A small 7% had their own funds and 17% did so because of their personal relationships. Given the small proportion of entrepreneurs who started with their own funds, credit is likely to be a constraint that social networks can help with by improving information flows to attain credit or indeed access credit from personal networks. Having real estate in China suggests a social network because all urban land is state-owned and land/buildings were only beginning to become privatized. Those who had the resource of real estate would have had the connections to attain such an asset.

The characteristics of entrepreneurs versus non-entrepreneurs in the survey have been examined. There are 359 individuals in the 1999 urban sample who are self-employed as entrepreneurs. This constitutes approximately 4% of all urban workers. There are certainly entrepreneurs who are not self-employed, but the data does not cover those individuals. However, starting de novo firms is an important element of transition and economic development and our survey does allow us to explore the traits of those who start their own businesses in urban China. The second most important reason for starting one’s own business was to join in with relatives and knowing others who will also enter into entrepreneurship. This is consistent with the findings of the entrepreneurship literature which emphasizes the importance of knowing friends or relatives who are entrepreneurs (Blanchflower *et al.*, 1998; Djankov, 2005). Starting a business with family can also help with finances and is consistent with the importance of social networks in fostering.

In our study, we found that there are very significant regional variations in the growth of new SMEs. The data reveals a west-mid-east divide in new firm formation since 1992. East province like Zhejiang, Jiangsu and Shandong Province have much higher enterprise formation rates than Middle province and The Mid is higher than West province (Table 3). These regional differences indicated that the environment is a powerful factor in entrepreneurship. The significant factors for both formation and growth were local population growth, capital availability and professional and managerial

Table 3: SMEs turbulence (1998-2000) production and manufacturing (Fan, 2001)

No. of employees	Service sector births 10 ³	Deaths 10 ³	Births10 ³	Deaths 10 ³
1-19	45	30	39	32
20-49	9	11	30	34
50-99	4	5	12	20
100-199	5	7	12	22
Totals	63	53	93	108

NB: In 2001 births were 92; deaths were 50

Table 4: Regional variation in new firm formation rates (Fan, 2001)

Region	Number of new firms (000)	Formation rate*	Proportion of accounted employment for by micro firms
East province			
Zhejiang	321	108.2	41.3
Shangdong	256	97.5	39.8
Jiangsu	289	101.5	40.2
Mid-province			
Hubei	218	80.1	32.7
Hunan	159	72.2	30.3
Henan	170	72.8	30.3
West province			
Xinjiang	149	68.5	28.9
Sichuan	140	67.2	28.1
Gansu	121	59.8	27.6

* Per 1000 civilian labour force, 2001

expertise. We believe that support from government does help to reduce the SMEs death rates.

SMEs volatility: It should be clear by now that not only do most SMEs struggle to survive on very low turnover levels. During the period 1998-1999 the SMEs death rates were almost as high as birth rates (Table 4). It is not only in the service sector in SMEs that new firm formation exceeded small firm deaths by any significant Fig. During a recession period after Asian financial storm 1998, date rates will have been higher. 2001 total registrations and deregistration still show high turbulence.

These birth and death rates illustrate a side of SMEs creation that is too often ignored by the government and policy makers. The social costs associated with a drive to improve start-up rates are often high. For example, high bankruptcy rates among SMEs owners and entrepreneurs, who have often pledged much of their wealth and personal assets into the business, leave many people who have lost more than they put into the business. Due to bankruptcy laws, which require secured creditors to be paid first, SMEs creditors, are often the last to be paid. During Asian financial storm, this situation has lead to a domino effect as one business failure forces other firms to fail.

High SMEs birth rates may look impressive, but they hide the fact that many of the new starts will not survive beyond the next year of operation and most will not survive the first three years. It is a sad fact that policy makers have been too preoccupied with quantifiable

numbers of new firm starts and insufficiently concerned with the quality of business start-ups that were created during the 1990s. It is only recently that there has been some positive attention given to the quality of new firm start-ups.

In terms of the age pattern, there seems to be a concentration among those 25-44 years in age. Two in three are in this age group. They tend to be older than those reporting start-ups and new businesses and younger than those associated with established businesses. Entrepreneurial firm owner-managers are old enough to have experience but young enough to have the energy to launch new initiatives.

CONCLUSION

We have concentrated on the importance of SMEs in China economy. Historically, China SMEs have been less important than in other developed nations, which have enjoyed better economic performance and growth, notably Japan and Korea. Greater attention in the late 1980s and through the 1990s has been paid to the SMEs for its potential in generation jobs and providing the engine for new economic growth. The result is that it is now received government policy that the SMEs will provide the main vehicle for economic growth and development and will be the main provider of jobs in the state-owned enterprises reform.

The decade of the early 1990s may in future be called a decade of SMEs growth in China. However, it is often forgotten that it was a decade of high volatility in SMEs: high business birth rates were accompanied by high business death rates.

In China, many people were encouraged to start their own business that did not have the management skills to survive. The social costs were high, due to the personal tragedies that lay behind the statistics. In addition, the quality of many of the jobs created was questionable often low paid, part-time and insecure.

There are signs that we have learned some lessons from the late 1990s decade of SMEs growth in China. The emphasis in policy has switched to quality rather than quantity. Supportive policies in new firm formation, such as those in Zhejiang and JiangSu province, are still selective; targeted at SMEs that have the potential to survive and grow. Today, more and more province are now focusing on quality, few criteria have been developed to target fast growth firms.

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