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Regulative institutions supporting entrepreneurship in emerging economies: A comparison of China and India

Nir Kshetri · Nikhilesh Dholakia

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Abstract China and India are touted as new entrepreneurship powerhouses. The two countries' different institutional history and characteristics have led to differences in environments related to entrepreneurship. There are some well-founded rationales as well as a number of misinformed and ill-guided viewpoints about the friendliness of the environment to support entrepreneurship in each country as well as the China–India differences concerning entrepreneurial environment. This article contributes to this debate by offering theoretical and empirical evidence regarding the differences in regulative institutions in the two economies. Specifically, we compare the state's regulative, participative, and supportive roles from the standpoint of entrepreneurship in the two countries.

Keywords Regulative institutions · China · India · Regulative function · Participative function · Supportive function

Introduction

China and India are touted as new entrepreneurship powerhouses. In a Zogby International's survey conducted among Americans, 49% of the respondents said that China or Japan provide the "creative and entrepreneurial milieu required to form the world's next technological innovator" (America 2007). Likewise, because of its entrepreneurial performance in recent years, analysts consider India as "the next Asian miracle" (Huang 2008, p.32).

N. Kshetri (✉)
Bryan School of Business and Economics, University of North Carolina at Greensboro, P. O. Box 26165, Greensboro, NC 27402-6165, USA
e-mail: nbkshetr@uncg.edu

N. Dholakia
College of Business Administration, University of Rhode Island, Kingston, RI, USA

The literature is often plagued with claims and counter claims regarding the friendliness of the environment to support entrepreneurship in China and India as well as the superiority of one country over another. First, consider China. One view is that China is "shifting from top-down, state-directed technology policies to more flexible, market-oriented approaches that foster innovation and entrepreneurship" (Segal 2004). Schramm (2004) considers China as the most spectacular example of a developing country that pays proper attention to what he refers as the four sectors of the entrepreneurial system—high-impact entrepreneurs, large mature firms, the government, and universities. The opposite argument is that the Chinese government has exercised its power over its firms in a "chaotic way," which has hindered entrepreneurship in the country (Gilboy 2004). Petras (2008) argues that most Chinese billionaires "secured political influence through kinship ties" and grabbed or created assets by making a "deal" with "regional, provincial or municipal party officials" (p. 323).

A similar point can be made about India. It is argued that India is "shifting away from a legacy of state-dominated commerce toward a market-oriented system" (Stewart et al. 2008, p. 85). The country has set an "explicit policy objective to become a leading business-friendly economy" (World Bank 2008a). For instance, India is introducing electronic registration for businesses (Economist 2009a). Huang (2008) notes that India is "shedding [its] harmful legacy" and Indian politics has become "more open and accountable." Bureaucratic barriers in the country, however, lead to longer time, higher cost, and reduced speed and flexibility for entrepreneurs to create and expand their ventures (Majumdar 2004). At the same time, influential entrepreneurs take advantage of various institutional holes in the country. Petras (2008) notes that most Indian billionaires built their wealth by "using economic power to secure neo-liberal policies" (p. 323). He goes on saying, "While many Indian publicists and economists hail the "Indian miracle" and classify India as an "emerging world power" because of the high growth rates of the past 5 years, what really has transpired is the conversion of India into a billionaire's paradise" (Petras 2008, p. 323).

There is also a disagreement among analysts as to which of the two countries has a more favorable and conducive environment for entrepreneurship. A more mainstream view would be that democratic societies such as India are more likely to benefit from globalization (Bremmer 2007). Consistent with this view, Huang (2008) notes that, in a number of important areas, institutional reform has gained a higher momentum in India than in China. India, for instance, outperforms China on almost all of the World Bank's (2008a, b) governance indicators (Table 1). Chi Lo, the author of *Phantom of the China Economic Threat*, however, commented, "The biggest obstacle to India outperforming China is reform inertia"[1] (The International Economy 2006). India's most important barrier to entrepreneurship arguably centers on red tape and bureaucracies on the national and state levels (The International Economy 2006).

Mysterious and complex natures of entrepreneurship landscapes in the two countries are highlighted in the above observations. In prior theoretical and empirical research, scholars have noted that contexts and environment play important roles in

[1] Chi Lo, Author of Phantom of the China Economic Threat, Palgrave Macmillan, 2006.

Table 1 A comparison of governance indicators in China and India (2007)

Governance indicator	India		China	
	Percentile rank (0–100)	Governance score (−2.5 to +2.5)[a]	Percentile rank (0–100)	Governance score (−2.5 to +2.5)[a]
Voice and accountability	58.7	+0.38	5.8	−1.0
Political stability	1.8	−0.01	32.2	−0.33
Government effectiveness	57.3	+0.03	61.1	+0.15
Regulatory quality	46.1	−0.22	45.6	−0.24
Rule of law	56.2	+0.10	42.4	−0.45
Control of corruption	47.3	−0.39	30.9	−0.66

Source: World Bank (2008b)

[a] The score has a mean of zero, a standard deviation of one, and ranges from −2.5 to 2.5. A higher or positive value indicates a stronger rule of law

determining entrepreneurial behavior (FORA 2006; Tan 2002). The operating environment for entrepreneurs is arguably more complex in emerging economies such as India and China than in developing economies.

The complexity necessitates more careful scanning for entrepreneurs in developing countries (Stewart et al. 2008).

To put things in context, formal and informal institutions have considerable influence on entrepreneurship (Ahmad and Hoffmann 2008; North 1990). Prior researchers have noted that institutional environments in developed and emerging economies differ substantially (Stewart et al. 2008). While some studies on entrepreneurship in emerging economies have shed some light on the impacts of informal institutions such as national culture on entrepreneurship (e.g., Busenitz and Lau 1997; Mueller and Thomas 2001; Busenitz et al. 2000), the issue of how formal institutions affect entrepreneurship in these economies is a little-examined problem in entrepreneurship research. This issue is rather important as regulatory framework is one of the important determinants of entrepreneurial performance (Ahmad and Hoffmann 2008).

There is also a relative scarcity of research involving cross-country comparison of the impacts of institutions on entrepreneurship in emerging economies. Likewise, current understanding of theorization regarding the difference in the entrepreneurial landscape in China and India is sketchy because little empirical work exists. The purpose of our study is to fill this void.

This paper theoretically and empirically investigates the differences between regulative institutions affecting entrepreneurship in China and India. This issue is rather important due to the fact that the state is arguably the most important institutional actor and powerful driver of institutional isomorphism since violations of laws and regulations can result in harsh sanctions (Bresser and Millonig 2003; Groenewegen and van der Steen 2007). It is widely documented that relevant laws, regulations, and their enforcement characteristics facilitate as well as hamper birth, growth, survival, and mortality of firms (Kiggundu 2002; Porter 1980; Stevenson 1998). Regulative institutions' role in promoting entrepreneurship is widely recognized in both the academic literature and policy documents concerned with this topic. For instance, "the need to reduce regulatory and administrative burdens affecting entrepreneurial activity; the increasing attention given by governments to entrepreneurship education and training; the need to ease SME access to financing, technology, innovation and international markets; …. and local policy issues" are emphasized among critical factors that influence SMEs' success (OECD 2005).

The remainder of the paper is structured as follows: the next section provides a literature review on institutions and entrepreneurship in emerging economies. Then, we compare regulative institutions affecting entrepreneurship in China and India. Next, we discuss the data, analysis, and findings. Finally, we provide discussion and implications.

Literature review: Institutions and entrepreneurship in emerging economies

All economic phenomena arguably have institutional components and implications (Parto 2005). In a larger sense, institutions are "macro-level rules of the game," which include formal constraints such as rules, laws, constitutions and informal constraints such as social norms, conventions and self-imposed codes (North 1996). Scott (1995, 2001) has proposed three institutional pillars—regulative, normative, and cultural-cognitive. They are related to "legally sanctioned behavior," "morally governed behavior," and "recognizable, taken-for-granted behavior," respectively (Scott et al. 2000, p. 238). The regulative pillar can be mapped with formal institutions while normative and cultural-cognitive pillars are related to informal institutions.

Although international entrepreneurship researchers have acknowledged the role of supportive and conducive environment in the growth of entrepreneurial firms, especially of SMEs (Etemad 2003, 2004), they have devoted relatively less attention to sources that contribute to such environment in emerging economies. Specifically, the pace and proliferation of research focusing on institutional influence on entrepreneurship have been slow (Ahistrom and Bruton 2002; Peng 2000a). Concerns regarding a lack of application of institutional theory on entrepreneurship research have been ringing in the literature (Ahistrom and Bruton 2002; Peng 2000a).

Most of the existing institutional studies on entrepreneurship in emerging economies have narrowly focused on informal institutions, especially on national culture (Busenitz et al. 2000; Busenitz and Lau 1997; Mueller and Thomas 2001). A number of them have linked Hofstede's (1980, 1994) cultural dimensions—especially individualism—to examine a country's propensity to engage in entrepreneurial activities (Ahistrom and Bruton 2002).

Entrepreneurship researchers studying the Chinese economy have focused primarily on social and cultural dynamics affecting entrepreneurship. Some researchers have suggested that Chinese culture tends to lack the characteristics needed to be successful entrepreneurs such as independent thinking, risk taking, innovativeness, and self-determination (Holt 1997; Anderson et al. 2003). Prior researchers have also noted the important role of perceptions related to an entrepreneur's social obligations in China and how such perceptions have affected entrepreneurship (Lau et al. 2001; Hsu 2006; Mourdoukoutas 2004; Hoogewerf 2002).

In India's case, the national culture–entrepreneurship relationship has been investigated mainly from the standpoint of the country's major religions such as Hinduism and Islam. As researchers such as Dana (2000) and Elliot (1998) make clear, many beliefs and values associated with major religions in India run counter to capitalism and entrepreneurship. The studies of many researchers over the past few decades have indicated that obligations associated with the Indian caste system make it more compelling and convenient to follow the family occupation instead of launching a new venture (Medhora 1965; Weber 1958). Observers also suggest that people in the country work primarily because of emotional attachment with the workplace or as a favor to the supervisor or to the employer (McClelland 1975; Kahar 1978).

Researchers have, however, pointed to declining differences across cultures (Baumol 1986). Many studies have provided support for the notion that culture alone is insufficient to describe cross-country differences in entrepreneurial activities (Kshetri 2007). This is thus an important gap in the literature since economic, political, and legal institutions play critical roles in shaping entrepreneurship (Djankov et al. 2006). Referring to China, Guiheux (2006) argues that entrepreneurship in the country can be attributed to initiatives coming from society (informal institutions) as well as the setting up of a new legal framework (formal institutions).

Another drawback of existing research in this area is that there has been a lack of cross-country studies that analyze the institutional influence on entrepreneurship. Especially empirical research on cross-national entrepreneurship has been limited, primarily, we believe, because of shortcomings with data.

An examination of regulative institutions related to entrepreneurship is thus interesting both theoretically and from the point of view of practical applications. This is because regulative institutions can be changed more easily and quickly than other components of institutions.

North (1990, p. 6) noted that "although formal rules may change overnight as the result of political and judicial decisions, informal constraints embodied in customs, traditions, and codes of conduct are much more impervious to deliberate policies." For instance, one study indicated that, in developing countries, a 10-day reduction in the time taken to start a business can lead to a 0.4 percentage point increase in GDP growth (Economist 2009b). This means that motivated policy makers in emerging economies could overcome some of the challenges and can introduce appropriate regulative changes to facilitate entrepreneurial development. Prior researchers have noted the important role of political support and government policies in the rate of new firm creation (Reynolds et al. 1994). A lack of property rights and excessive government regulation hinder entrepreneurship in many developing countries (Zedillo 2004). Proactive government policies in the areas of R&D investments, patents, and labor mobility, on the other hand, positively affect new firm formation (Choi and Phan 2006).

The increasing importance of this topic is also recognized by the fact that the development of private entrepreneurial firms is a relatively new but increasingly salient phenomenon in emerging economies (Ahistrom and Bruton 2002; Kshetri 2009b, 2010). We focused on China and India because these are the world's two biggest emerging economies. In recent years, they have also been an engine of the global economic growth. A preliminary analysis indicated that excluding the economies that experienced negative growths, China and India accounted for 66% and 11%, respectively, of global growths in GDP in 2009 (Ghemawat 2010). Note too that there are strong similarities and significant differences between the environments of China and India from the standpoint of entrepreneurship. A comparison of regulative institutions in the two countries might provide insights into different aspects of the government's roles in facilitating or hindering entrepreneurship. Finally, these two economies have been held up as development role models for other developing countries, especially those in Africa. Observers note that China has gradually changed its role in Africa from a mere trade partner to more "advisory approach" (China: Country Analysis Report 2009). Likewise, in 2008, India played host to development experts from Africa (Economist 2008). From the follower countries' perspective, it is essential to understand their role models' strengths and weakness so that they exactly know what to imitate and how to evaluate the success of an imitation.

The state's roles, regulative institutions, and entrepreneurship

In an attempt to achieve various goals, powerful organizations such as state agencies attempt to create and alter institutional rules (Leblebici et al. 1991; Meyer and Rowan 1977). Such rules established by the modern state in areas such as property rights, competition and anti-trust policy, governance structures, and market exchange govern behaviors of entrepreneurial firms and other economic actors (Dobbin and Dowd 1997; Fligstein 1996; Roy 1997). In particular, Porter (1980) has argued that tighter government regulations may impose significant barriers to entry for new firms. Prior research also indicates that government policies are likely to have more salient effects in shaping the competitive environment of firms than in promoting specific business practices (Dobbin and Dowd 1997).

The state's roles in promoting or inhibiting the growth of entrepreneurship are typically framed as regulative institutions in the institutional literature. Note that regulative institutions consist of "explicit regulative processes: rule setting, monitoring, and sanctioning activities" (Scott 1995, p. 35). In the current context, such institutions consist of regulatory bodies (e.g., the governments in the two countries, major political parties such as the Chinese Communist Party (CCP), etc.) and existing laws and rules that influence the development of entrepreneurship. Specifically, we examine three distinct but related components of regulative institutions—regulatory, participatory, and supportive. These three components adequately cover the processes and most of the roles and functions of the state associated with the development of entrepreneurship. Let's take a look at each of the components in turn.

Regulatory roles

By regulatory state, Sobel (1999) means a set of factors that influence the enforcement of contracts, the rule of law, the risk of expropriation, corruption of government, and bureaucratic quality. A country with a strong rule of law has "sound political institutions, a strong court system" and citizens are "willing to accept the established institutions and to make and implement laws and adjudicate disputes" (International Country Risk Guide 1996). Put differently, a strong rule of law is characterized by effective punishment to transgressors (Oxley and Yeung 2001). In overly politicized and less free states, which lack rule of law, entrepreneurial efforts are diverted away from wealth creation into non-market behavior entailing securing protection from market forces (Campbell and Rogers 2007; Clark and Lee 2006; Kreft and Sobel 2005; Sobel et al. 2007). In particular, recognition of contract law is important in producing trust in business transactions (Humphrey and Schmitz 1998; Nichols 1999; Stiglitz and Squire 1998).

It is worth noting that, in many emerging economies, the rule of law is "often weakly developed" or sometimes "ignored with impunity" (Bratton 2007). Factors such as corruption and the effectiveness of legal system in enforcing contracts act as barrier to entrepreneurship (Sievers 2001). In the absence of effective legal enforcement of private property rights, entrepreneurs find it more attractive to acquire political and administrative protection or depend upon informal norms for security (Yang 2002). A lack of mechanisms related to the protection of intellectual property and discouraging monopolies and unfair trade practices also hinder entrepreneurship (Schramm 2004). Kreft and Sobel (2005: 604) forcefully state:

> Creative individuals are more likely to engage in the creation of new wealth through productive market entrepreneurship. In areas without these institutions, creative individuals are more likely to engage in attempts to capture transfers of existing wealth through unproductive political entrepreneurship.

Participatory roles

The term "participatory state" captures the extent to which policies and institutions represent the wishes of the members of society (Sobel 1999). In such a state, businesses may participate in the national policy making arena through "dialogue, litigation, and mimesis" (Edelman and Suchman 1997). Prior research indicates that business groups can work closely with state agencies to protect their independence and autonomy (Greenwood and Hinings 1996).

In some situations, particularly when business groups are strong, the nation may find it important to collaborate with them in rationalizing different activities (Scott 1992, p. 211). Business groups are also involved in a "highly interactive process of social construction," which influences the practical meaning of a law-in-action (Edelman and Suchman 1997).

Supportive roles

Of equal importance in the discussion of regulative institutions that follows below is the state's supportive role. In this regard, it is important to note that in many emerging economies new businesses face a host of barriers such as burdens related to tax systems and bureaucracy, absence of relevant commercial laws, dysfunctional financial markets, and a lack of know-how.

Different theoretical contributions and various empirical studies have led to the accepted view that the government can attack barriers to entrepreneurship related to skills, information, market, and infrastructures by legal and non-legal influences. Scholars examining the development of information and communications technology (ICT) industry have identified these influences in the form of new laws, investment incentives, foreign technology transfer, and other supply-push and demand-pull forces (King et al. 1994; Montealegre 1999). For instance, Singapore has developed itself as an ICT hub of Asia by providing attractive infrastructure, skilled workers, and a stable labor environment which attracted a large number of ICT firms to locate there (Kraemer et al. 1992; Wong 1998). Similarly, strong university–industry linkages and a large pool of highly trained scientists and engineers have driven the development of ICT industries in Israel (Porter and Stern 2001).

Regulative institutions in emerging economies' contexts

Prior to discussing regulative institutions in emerging economies, it is worthwhile to discuss how behaviors of firms as well as government regulations are affected by institutional contexts. Prior research indicates that strategies as well as performance of firms are functions of the institutional contexts (Hirsch 1975; Meyer et al. 2009). Commenting on how the state's roles vary according to the context, Fligstein (1996, p. 660) notes: "[S]tates are important to the formation and ongoing stability of markets. How they will be important and to what degree is a matter of context."

The literature suggests the possibly differential roles and mechanisms by which the state regulates entrepreneurial activities in emerging and developed economies. For one thing, institutions in emerging economies are more likely to be associated with "institutional voids" than those in industrialized economies (Khanna and Palepu 1997). This means that institutional boundaries for economic activities are not well defined in most emerging economies. In many developing countries, starting a business entails overcoming a significant amount of red tape (Schramm 2004).

Another distinctive feature of institutional contexts in most emerging economies concerns a weak rule of law. For instance, some argue that, in China "the law is marginalized and the legal system relegated to a lowly position in a spectrum of meditative mechanisms, while at the same time available for manipulation by powerful sectors within the state and the society at large" (Myers 1996). Exploitation of the regulative uncertainty and the weak rules of laws has arguably become an important form of entrepreneurship in China (Kolko 1997). Yang (2002) refers to this phenomenon as "double entrepreneurship," which entails maximizing economic rewards and minimizing sociopolitical risks. In China, entrepreneurs find attractive economic niches from outside the current institutional boundaries (Yang 2002). For instance, entrepreneurs depend on relations with government bureaucrats to obtain a business license (Mourdoukoutas 2004).

The above discussion indicates that entrepreneurial firms operating in emerging economies need to respond to environmental and institutional contexts that are significantly different from those in industrialized countries. As noted earlier, the development of private entrepreneurial firms is a relatively new phenomenon in emerging economies (Ahistrom and Bruton 2002; Kshetri 2009b, 2010). There was a low level of social and political acceptance of such firms in many emerging economies in the past (Peng 2000b; Tsang 1996). That is, they lacked sociopolitical legitimation (Aldrich and Fiol 1994). The situation is, however, changing in many emerging economies (America 2007; Huang 2008). Nonetheless, they are "vulnerable to the liabilities of newness" (Aldrich and Fiol 1994, p. 663). Owners and managers of private firms are under tremendous pressure to find creative ways to respond to their environments in these economies (Ahlstrom and Bruton 2001, 2002; Peng 2000a; Tsang 1996).

Many entrepreneurs in these economies are engaged in the creation of new ventures in economic sectors that are in a nascent and formative stage and thus have few or no precedents (e.g., Kshetri and Dholakia 2009). Note too that institutional formation and change are resource-intensive tasks (Leblebici et al. 1991). The governments in many emerging economies lack resources to create institutions (Kshetri and Dholakia 2009). Policy makers as well as entrepreneurs in such industries thus face challenges that are different and more complex than those in industrialized countries (Aldrich and Fiol 1994, p. 645).

The differences between the institutions related to entrepreneurship in emerging and developed economies can also be explained in terms of three major sources of pressure on institutionalized norms or practices proposed by Oliver (1992): functional, political, and social. As we show below, emerging economies' contexts are different from those in industrialized economies from the standpoint of these pressures.

Functional pressures arise from perceived problems in performance levels or the perceived utility associated with institutionalized practices (Dacin et al. 2002, p. 45). For instance, governments in Central and Eastern European economies (CEE), China and Vietnam have realized that central plan is linked to poor economic performance (Kshetri 2009b). The upshot of this issue is that governments in these economies are encouraging free-market entrepreneurship in response to the resulting functional pressures.

From this paper's perspective, the most relevant issues concern political pressures which are created by shifts in the interests and power distributions of various institutional actors. Entrepreneurs' acceptance into the CCP's inner circle in China is illustrative of the creation of such pressures in favor of private entrepreneurship. The CCP in 2002 changed its bylaws to allow entrepreneurs to become members (Loyalka and Dammon 2006). In a 2001 speech during celebrations of the party's 80th anniversary, then President Jiang Zemin acknowledged the benefit capitalists bring to the economy (Hoogewerf 2002). He also handed party membership to a capitalist and founder of one of China's most respected private companies and the first private company to list on a foreign stock exchange (Pomfret 2001). In another instance, in 2003, the CCP appointed one of China's wealthiest private entrepreneurs as deputy chairman of an advisory body to the government of Chongqing municipality. He was the first private businessman in China to be awarded such a high position (Economist 2003).

Prior researchers have recognized that the shifts associated with political pressures may occur due to factors such as performance crises and changes in the environment. Organizations may be forced to question the legitimacy of a given practice in response to such changes (Dacin et al. 2002). For instance, the base of regime legitimacy in China is shifting from MarxLeninism to economic growth (Chen 2002; Zhao 2000).

Social pressures are associated with the existence of heterogeneous groups with diverse beliefs and practices or changes in laws or social expectations (Oliver 1992; Scott 2001). For instance, following the economic liberalization in India in the 1990s, there has been a shift from a state-dominated economic policy framework towards a decentralized one. Religious, social, economic, and political associations have become more powerful (Frankel 2006).

A comparison of regulative institutions in China and India: Hypothesis development

States differ in their capacities to intervene due to their unique institutional history and other situations they are facing (Fligstein 1996). China and India have different institutional history and characteristics, which have led to differences in environments related to entrepreneurship. A comparison of governance indicators in China and India for 2007 indicates that India performs better in areas such as voice and accountability, regulatory quality, rule of law, and control of corruption. China, on the other hand, performs better in political stability and government effectiveness (Table 1).

Chinese politics was arguably the most liberal in the 1980s (Huang 2008). The 1989 Tiananmen events was one of the biggest roadblocks facing Chinese entrepreneurs. It is argued that, in the 1990s, the Chinese state reversed the gradualist political reforms (Huang 2008).

India started relaxing industrial regulation in the early 1970s, trade liberalization began in the late 1970s, the pace of reform picked up significantly in the mid-1980s (Panagariya 2005). Indian entrepreneurship, however, got a big boost following the economic liberalization started in 1991. The pre-1991 reforms were "introduced quietly and without fanfare" (Panagariya 2005).

Regulatory roles of the state in China and India

Notwithstanding the existence of some essential elements of a democracy, the Indian political system has become inherently "unaccountable, corrupt, and unhinged from the normal bench marks voters use to assess their leaders" (Huang 2008). Court systems are overburdened and thus are characterized by procedural delays, and red tape (Bhattacharjya and Sapra 2008; Lancaster 2003). The Bureau of Democracy, Human Rights and Labor's report, "Supporting Human Rights and Democracy: The US Record 2004–2005," noted, "poor enforcement of laws, especially at the local level, and the severely overburdened court system weaken the delivery of justice." According to the South Asia Human Rights Documentation Center, there was a backlog of 23.5 million cases in 2002 (Lancaster 2003). Likewise, the World Bank's Doing Business Report 2009 reported that it takes 1,420 days to enforce a contract in India compared with 150 days in Singapore.

India's court system is decentralized and is largely administered by its states. National labor laws in India are also administered at the state level (Deloitte 2006). The states have faced budget problems and have failed to comply with federal directives to hire more judges and upgrade legal infrastructures and court facilities (Lancaster 2003). One scholar noted, "Corrupted as they are by the party system, India's institutions are incapable of enforcing accountability. India's elites tolerate a level of poor governance and abuse of power that has led to the collapse of democracy elsewhere."[2] Beyond all that, in India, there are groups that campaign in support of traditional values. Notwithstanding their supports to modernization, the Indian government and court system are forced to settle for compromise, which means a slower progress than they would like to see (Baird 1998).

China's poor performance in terms of transparency, official accountability, and the rule of law is widely recognized in the literature (Economy and Segal 2008; Liu 2006). There has been an absence of effective procedural and remedial mechanisms. Corruption in the courts has been an issue of big concern in the country (Liu 2006). It is important to note that in the CCP's Political-Legal Committee, local party committees and local governments control personnel and funding in the courts (Liu 2006). Yet, having said this, it is apparent, too, that China's shift toward the rule of law gained momentum in the 1990s (Fox 2008).

Regarding China's superiority over India, two further observations are worth making. As indicated earlier, in China, the base of regime legitimacy is shifting from MarxLeninism to economic growth (Chen 2002; Zhao 2000). Chinese leaders have set economic growth as the top priority (Zhao 2000). Moreover, many entrepreneurs in China arguably equate rule of law with democracy (Chen 2002). Second, as noted earlier, creation of institutions to promote entrepreneurship is a resource-intensive task and many emerging economies lack resources to create such institutions (Leblebici et al. 1991; Kshetri and Dholakia 2009). In this regard, China has more resources than India to create new institutions to support entrepreneurship and perform the regulative functions required for entrepreneurship development. Based on above discussion, the following hypothesis is presented:

> H_1: The state's regulatory role is more favorable to private businesses in China than in India.

Participatory roles of the state in China and India

Prior research suggests that the performance of firms depends upon their capability to control various aspects of the environment (Hirsch 1975). Since India is arguably the most populous democracy in the world, it is tempting to think that firms in the country are likely to have a higher degree of influence on the regulative contexts than firms in China. This is because democracy is inherently participative and collaborative. The existence of formal democratic structures, even if they are not implemented in practice, represents at least symbolic actions related to firms' participation in national policy making (Kshetri 2008; Kshetri 2009a). Theorists argue that symbolic actions (e.g., existence of formal structures allowing private firms' participation in national policymaking) lead to more substantive changes (private firms' actual involvement in national policymaking) subsequently (Campbell 2004; Forbes and Jermier 2001; Guthrie 1999; Oakes et al. 1998).

[2] Appu Soman, Letter to Editors, Foreign Policy, September/October 2008, Issue 168, p14.

It is important to note that the economic liberalization undertaken since 1991 in India has been a major driving force behind the growth and increased importance of the private sector. A commonplace observation is that, since the 1990s, there has been a shift from a state-dominated economic policy framework towards a decentralized one (Kshetri and Dholakia 2009). Such shifts can be attributed to social pressures described earlier, which are associated with the existence of heterogeneous groups or changes in laws or social expectations (Oliver 1992; Scott 2001). For instance, religious, social, economic, and political associations with diverse beliefs and practices have offered a viable set of examples encouraging the development of many new trade and professional associations and other organizations (Frankel 2006). A strong mutual interdependence between the state and the private economic actors, particularly organized business groups, has developed very quickly (Kshetri and Dholakia 2009).

A comparison of India's National Association of Software and Services Companies (NASSCOM) and China Software Industry Association (CSIA) indicates that India may perform better than China in terms of the participatory roles. In China, special interest groups and non-government entities are organized loosely and there is little room for these groups to influence national policymaking (Li et al. 2004; Su and Yang 2000). Chinese government's control arguably is a major obstacle to the autonomy and growth of associations in the country (Dickson 2003; Frankel 2006). Compared to NASSCOM, CSIA has thus played a relatively minor role in transforming structure and practices of Chinese companies (Shen 2005). In line with these arguments, the following proposition is presented:

> H_2: The state's participatory role is more favorable to private businesses in India than in China.

Supportive roles of the state in China and India

As discussed earlier, the base of regime legitimacy in China is shifting from MarxLeninism to economic growth (Chen 2002; Zhao 2000). Chinese leaders have set economic growth as the top priority (Zhao 2000). The CCP arguably has "a tacit social contract" with its citizens to maintain a high level of economic growth so that its authority will not be challenged (Okimoto 2009, p. 40). In sum, the CCP's survival largely depends upon its economic performance (Chen 2002).

Unsurprisingly, the Chinese government outperforms in infrastructure projects (Economy and Segal 2008). Some even argue that the post-Deng regime is only "rhetorically tied to Marxist ideology" (Chen 2002). The CCP expects that a richer economy might help burnish China's image worldwide and increase respect for it. For that reason, Chinese government encourages entrepreneurship. China's successful blend of nationalism and Marxism (Shlapentokh 2002) has provided impetus to entrepreneurship and investment. Most CCP leaders have realized that entrepreneurs' contribution to the ambitious economic agenda outweigh the costs related to the challenges to the CCP's legitimacy. For this reason, they are wholeheartedly promoting and facilitating entrepreneurial thinking and practices. Among other things, the Chinese government has taken measures to improve businesses' access to credit (Economist 2009a). In sum, the private sector in China has more favorable environment to grow than in India (Chen 2002). The above leads to the following:

> H_3: The state's supportive role is more favorable to private businesses in China than in India.

Data, analysis, and findings

Our data are from The World Bank Group's World Business Environment Survey (WBES 2000). WBES was administered to enterprises in 80 countries in late 1999 and early 2000. The data capture businesses' perception of the effects of two decades of reforms on regulative institutions in both China and India. The survey utilized a standard core enterprise questionnaire methodology. Questions in the survey focused on the quality of the investment climate as shaped by domestic economic policy; governance; regulatory, infrastructure, and financial impediments; and assessments of the quality of public services (IFC 2007). We compared formal institutions related to the state's regulatory, participatory, and supportive roles in the two economies.

Statistical analysis

To compare regulative institutions affecting entrepreneurship in India and China, we performed *t* tests. More specifically, we used a Satterthwaite method of *t* test, which is an alternative to the pooled-variance *t* test. A Satterthwaite method is used when the assumption that the two populations have equal variances seems unreasonable. It provides a *t* statistic that asymptotically (that is, as the sample sizes become large) approaches a *t* distribution, allowing for an approximate *t* test to be calculated when the population variances are not equal. The interpretations for most of the results, however, did not change with pooled-variance *t* tests.

Note that the *t* test is parametric, which means that the scales used to measure businesses' perceptions of various components of regulative institutions are assumed to be normally distributed. The advantages of parametric models include their rigorous mathematical foundations, and availability of straightforward estimation and computation methods. Such models are also parsimonious as a small number of parameters can completely describe the distribution of the businesses' perceptions of various components of regulative institutions. A final advantage of parametric techniques is the easy interpretation of the results.

One drawback of parametric models concerns their strong assumptions regarding functional forms. Parametric models thus may not be able to capture some particularities of the variables. Moreover, in some cases, the parameters of such models are not easy to understand.

Regulatory role

We begin by considering governments' regulatory roles in the two economies. Table 2 displays the results for the businesses' perception of their states' regulatory

Table 2 Regulative roles: perception of the court systems (Q11)

	China			India		
	N	Mean	SD	*N*	Mean	SD
Fair and impartial	93	2.92	1.28	196	2.42	1.20
Honest/uncorrupt	91	3.29	1.29	188	2.85	1.35
Quick	91	3.64	1.19	193	4.83	1.34
Affordable	85	2.98	1.06	192	3.78	1.55
Consistent	88	3.10	1.26	191	3.32	1.36
Decision enforced	87	3.06	1.31	192	3.13	1.51
Overall	76	3.16	0.91	182	3.38	1.07

roles in terms of the court systems' efficiency in dealing with business disputes. We took question no. 11 in the WBES for this purpose.[3] It read, "In resolving business disputes, do you believe your country's court system to be." "Fair and Impartial," "Honest/Uncorrupt," "Quick," "Affordable," "Consistent," and "Decisions Enforced." In the "Always" (1) to "Never" (6) scale, the difference of means between India and China was statistically significantly ($t=-1.72$, $p<0.10$).[4] This indicates that businesses in China perceived their court system more favorably compared to those in India.

Participatory role

Question no. 9[5] asked to rate "overall perception of the relation between government and/or bureaucracy and private firms." The item: "All in all, for doing business I perceive the state as" was measured in very helpful (1)–very unhelpful (5) scale for the central/national government as well as for the local/regional government. Moreover, the respondents were asked to rate their perceptions of governments at both levels for "now" and "3 years ago." Table 3 presents businesses' perception of the relation between government and/or bureaucracy (central/national level) and

[3] As an alternative measure of the regulatory role, businesses' perceptions of their competitors' compliance with laws can also be used, which is measured by question no. 35 in the WBES. The question read, "Please judge on a four point scale how problematic are the following practices of your competitors for your firm?" This measure, however, could not be used because of missing data for Indian businesses.

[4] We used Satterthwaite method of *t* test, which is an alternative to the pooled-variance *t* test. Satterthwaite method is used when the assumption that the two populations have equal variances seems unreasonable. It provides a *t* statistic that asymptotically (that is, as the sample sizes become large) approaches a *t* distribution, allowing for an approximate *t* test to be calculated when the population variances are not equal (http://www.ats.ucla.edu/stat/sas/output/ttest.htm). Note, however, that interpretations for most of the results did not change with pooled-variance *t* test.

[5] As an alternative measure of participatory roles, question no. 10 in the WBES can be used, which read, "When a new law, rule, regulation, or decree is being discussed that could have a substantial impact on your business, how much influence does your firm typically have at the national level of government on the content of that law, rule, regulation or decree?" This question consisted of four items related to executive, legislative, ministry, and regulatory agency. This question, however, could not be used because of missing data for Indian businesses.

Table 3 Businesses' perception of the relation between government and/or bureaucracy and private firms (Q9) (1999/2000)

	China			India		
	N	Mean	SD	*N*	Mean	SD
Central/national government	92	2.86	1.36	198	2.78	1.10
Local/regional government	99	2.56	1.29	200	2.86	1.21

private firms "Now," that is, in 1999/2000. The difference between means of the two countries (India–China) was statistically insignificant ($t=-0.53$, $p>0.59$).

In the same manner, businesses' perceptions of the relation between government and/or bureaucracy (local/regional level) and private firms are presented in Table 3 for "Now," that is, in 1999/2000. The difference between means of the two countries was statistically significant ($t=-1.89$, $p<0.1$), which indicated that China outperformed India in terms of bureaucratic supports to entrepreneurship at the local/regional level.

Similarly, Table 4 presents businesses' perception of the relation between government and/or bureaucracy (central/national level) and private firms "3 years ago," that is, in 1996/1997. The difference between the two countries was −0.373, which was statistically insignificant ($t=0.90$, $p<0.37$). In the same manner, businesses' perceptions of the relation between government and/or bureaucracy (local/regional level) are presented in Table 4 for 1996/1997. The difference of means between the two economies was statistically significant ($t=-2.48$, $p<0.05$).

Shift in businesses' perception of the relation between government and/or bureaucracy and private firms in the 3-year period Table 5 presents shifts in private firms' perception of the relation between government and/or bureaucracy with the central/national level as well as at the local/regional level. Indian private firms reported higher shifts than Chinese private firms at both levels. The difference of the mean between India and China at the central/national level was statistically significant ($t=-2.21$, $p<0.05$). A similar point can be made about the shifts at the local/regional level ($t=-1.67$, $p<0.10$).

Supportive role

Question no. 7 stated[6], "Please judge on a four-point scale how problematic are these different regulatory areas for the operation and growth of your business." Various areas included in the questionnaire are presented in Table 6. In the No Obstacle (1)–Major Obstacle (4) scale, the difference of the means between the two countries was statistically significant ($t=5.85$, $p<0.0001$).

[6] As an alternative measure of supportive role, question no. 8 in WBES can be used, which read, "How often does the government intervene in the following types of decisions by your firm?" This question consisted of seven items. This measure, however, could not be used because of missing data for Chinese businesses.

Table 4 Businesses' perception of the relation between government and/or bureaucracy (central/national) and private firms (Q9) ("3 years ago") (1996/1997)

	China			India		
	N	Mean	SD	*N*	Mean	SD
Central/national government	82	3.15	1.35	195	3.31	1.18
Local/regional government	89	2.84	1.38	195	3.26	1.18

Discussion and implications

The regulatory institutions to support entrepreneurship do not develop uniformly across all economies. Because of differences in contexts and backgrounds, the two Asian giants considered in this paper have exhibited wide differences in such institutions. While there are some studies examining the China–India differences (e.g., Huang 2008), none does so in a way that quite serves the empirical objectives of this study. To the authors' knowledge, these data and analyses provide the first comprehensive empirical documentation of the differences. The present study thus fills a large gap in the institutional and entrepreneurship literatures by providing clear and convincing evidence related to different elements of regulative institutions in the two Asian giants. This paper disentangled the components of regulative institutions in the two countries and compared them.

Table 7 presents our findings regarding different components of regulative institutions in China and India. Most of the hypothesized effects are statistically significant and in the expected direction. The results indicated that China outperformed India in most of the indicators related to regulative institutions impacting entrepreneurship.

Implications for management and public policy

Prior researchers have found that economic freedom and political freedom "typically go hand in hand" and are highly correlated (La Porta et al. 2004). This means that economies that lack political freedom are also likely to have a low level of economic liberalization, which is essential for promoting private entrepreneurship. Our findings might counter such arguments by suggesting that authoritarian regimes might be able to create an environment conducive for private entrepreneurship without political reforms. On the other hand, democracy is not necessarily related to

Table 5 Shift in businesses' perception of the relation between government and/or bureaucracy

	China			India		
	N	Mean	SD	*N*	Mean	SD
Central/national government	82	−0.305	0.641	195	−0.523	0.959
Local/regional government	89	−0.236	0.769	195	−0.41	1.012

Table 6 Businesses' perception of regulatory areas for the operation and growth (Q7)

	China			India		
	N	Mean	SD	*N*	Mean	SD
Business licensing	101	1.84	1.08	191	1.91	0.94
Custom/foreign trade regulation	76	1.81	1.02	185	2.51	0.91
Labor regulation	100	1.70	0.85	201	2.81	0.99
Foreign currency/exchange regulation	82	1.63	0.85	186	2.21	0.92
Environmental regulation	96	1.69	0.93	187	2.26	0.92
Fire safety regulation	97	1.63	0.85	189	1.80	0.80
High taxes	94	2.42	1.10	196	2.90	1.06
Overall	68	1.83	0.59	168	2.34	0.59

economic freedom. For instance, our analysis indicates that indicators related to regulative institutions affecting entrepreneurship and the World Bank's governance indicators are not in concord. While India outperforms China in most areas of the World Bank's governance indicators (World Bank 2008b, Table 1), the reverse is the case of regulative institutions affecting entrepreneurship.

Table 7 Findings regarding different components of regulative institutions in China and India

Functions	Explanation	Findings
Regulative	Court systems' efficiency in dealing with business disputes	Chinese government provided more favorable environment than Indian government
Participative	Businesses' perception of the relation between government and/or bureaucracy	1999/2000
		Relationship between central/national level bureaucracy and private firms: no difference between the two countries
		Relationship between local/regional level bureaucracy and private firms: India outperformed China
		1996/1997
		Relationship between central/national level bureaucracy and private firms: no difference between the two countries
		Relationship between local/regional level bureaucracy and private firms: China outperformed India
		Shift during 1996/1997–1999/2000
		Indian businesses reported a bigger shifts in private firms' relationships with central/national level bureaucracy as well as local/regional level bureaucracy
Supportive	Regulatory areas for the operation and growth of private businesses	Chinese government provided more favorable environment than the Indian government

China's economic performance has been remarkable despite the fact that its economic and political institutions have not followed Western prescriptions and mainstream economic theory (Nolan 1994). The findings of this article have helped explore several issues related to the China puzzle. Liberal democratic as well as authoritarian states can take a page from the lesson book of China.

Our analysis also pinpoints problematic areas related to regulative institutions in China and India that need to be addressed. Varshney (2007) noted, "Democracy and market reform are uneasily aligned in India." China, despite its authoritarian governance system, is outgrowing India. This article provided detailed insights into mechanisms associated with China's superior economic performance. In this regard, the findings of this article provide some guidance in producing a better alignment. We have pinpointed some areas where India can improve. More to the point, in order to prepare its economy to compete with China, India needs to implement wide-ranging institutional reforms to improve variables such as the overall level of bureaucratic quality and corruptions in the court system.

While China has outperformed India in many aspects of regulative institutions, there are still plenty of rooms for improvement. Some areas need more attention and focus than others. As our analysis indicates, one of the most problematic areas is China's court system. Especially, the speed with which the courts hear and decide a case has been slower than businesses would like to see. That said, a comparison with Central and Eastern European economies (Kshetri 2010) indicates that Chinese businesses' perceptions of the country's court system are more favorable than they are for the businesses in many CEE economies of their respective court systems. Looking at businesses' perceptions of the Chinese court systems, we also find that the lack of honesty and pervasiveness of corruption are seen as problematic areas that need particular attention.

A comparison of China and India indicates that the court systems are perceived as more fair and impartial in India than in China. Moreover, Indian court systems are perceived as being more honest and uncorrupt than China's. Measures to develop fair, impartial, honest, and uncorrupt court systems are of paramount importance for China, which would allow it to further outperform India.

The analysis of this paper has strong economic and political implications for developed countries as well. Koo (1998) noted that the "progress in China has been scarcely noted in the Western media and overshadowed by the focus on the human rights abuses as perceived by the West." This observation remains generally true today as well. The Western media have neglected to pay enough attention to transformations undergoing the Chinese entrepreneurship landscape. Despite a lack of political freedom, China's entrepreneurial performance has been stronger than meets the eye. The development of entrepreneurship-friendly institutions indicates evidence of catching-up processes in the Chinese economy.

Limitations and future research

The data used in the paper were collected in 1999–2000. This is both its limitation and contribution. As noted earlier, the data capture businesses' perception of the effects of more than two decades of reforms on regulative institutions in China and India. There obviously is a need for studies comparing institutional in the two countries that are based on more recent data.

Further theoretical and empirical research is also needed to gain a better understanding of regulative institutions' impacts on entrepreneurship development in emerging economies. Future research based on the present framework can be extended to other emerging economies.

Prior researchers have suggested that institutional changes "have effects that are particularistic" (Dacin et al. 2002, p. 45). To put things in context, regulative institutions in China and India may differ across different industries. For instance, observers have noted that India outperforms China in some areas such as banking (Huang 2008). In future conceptual and empirical work, scholars need to compare and contrast regulative institutions from the standpoints of specific economic sectors (e.g., banking, retailing, high technology, etc.).

Finally, as to the government's role in shaping entrepreneurship landscape in emerging economies, it is important to note that the government can do little to bring changes in informal institutions. In China, for instance, although formal institutions such as rules and laws are changing rapidly, some institutional actors such as decision makers in state-owned banks and other agencies, local cadres, tax officers, and government officials (Economist 2002; Yang 2002) are trapped in the socialist mindset. For instance, studies have reported Chinese societies' negative perception of those trying to build their own company (Harwit 2002) and some people in the country consider entrepreneurs as "selfish, avaricious peddlers," or "getihu" (Hsu 2006). In this regard, a comparison of informal institutions influencing entrepreneurship in the two countries might be a worthwhile target of study.

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