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# Mechanism of Interaction between Entrepreneurial Spirit and Growth of Small and Medium Sized Private Enterprises

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**Abstract** In the context of government appeal of "mass entrepreneurship and innovation", all areas launched the movement of "mass entrepreneurship" and "grassroots entrepreneurship". As parts of vitality of China's market economy, small and medium sized private enterprises become grassroots of market competition in talents, funds, and technologies. This paper combined three levels of entrepreneurial spirit and small and medium sized private enterprises, studied acting mechanism of entrepreneurial spirit, discussed competitive power of small and medium sized private enterprises, and recommended that small and medium sized private enterprises should cultivate core competitive power, adapt to external environment, and create external environment support, to realize sound development.

**Key words** Entrepreneurial spirit, Small and medium sized private enterprises, Enterprise growth

## 1 Introduction

Small and medium sized private enterprises are helpful in establishing and improving market economic system. They can increase job opportunities, stabilize social order, and promote technological innovation and progress. However, when participating in market competition, small and medium sized private enterprises are weak in talents, funds, and technologies. In current economic recession situation, China's employment volume is declining, small and medium sized private enterprises have huge pressure, many small and medium sized private enterprises close down. Small and medium sized private enterprises have to bring into play their superior resources in intense competition. As essential resources of enterprises, entrepreneurship spirit is accompanied with growth of enterprises and can make up for weak resources of small and medium sized private enterprises, help small and medium sized private enterprises to survive and promote development of small and medium sized private enterprises.

## 2 Literature review and concept definition

### 2.1 Small and medium sized private enterprises and enterprise development

**2.1.1** Small and medium sized private enterprises and enterprise development. Division criterion of small and medium sized enterprises should accord with *Circular of the State Economic and Trade Commission, the State Development Planning Commission, the Ministry of Finance and the State Statistics Bureau on Distributing the Interim Provisions on the Standards for Medium and Small Enterprises*. For example, enterprises with less than 500 employees and sales amount lower than 150 million yuan are small and medium sized enterprises.

In line with definition of private enterprises, private enterprises and national enterprises are a pair of relative concept. As long as an enterprise is not national or official enterprise, it belongs to private enterprise. The division of enterprises has nothing to do with enterprise ownership. In private enterprises, there are private ownership economy, state-owned economy, and other public ownership economy.

**2.1.2** Enterprise growth. Enterprise growth is a process of quantitative and qualitative change. Growth factors promote constant changes of enterprise internal organizations and functions to adapt to changes of external environment. Changes include expansion of enterprise size, growth of sales volume, increase in profit rate, constant improvement and maturity of internal structure, and optimization of enterprise functions. Enterprise growth system is characterized by opening, self-organization, self-control, adaptation, and sensitivity. Enterprise growth is periodic and phased. Some scholars divided enterprise growth into starting period, expansion period, mature period, and aging period. Some scholars divided enterprise growth into establishment period, expansion period, mature period, consolidation period, and transformation period.

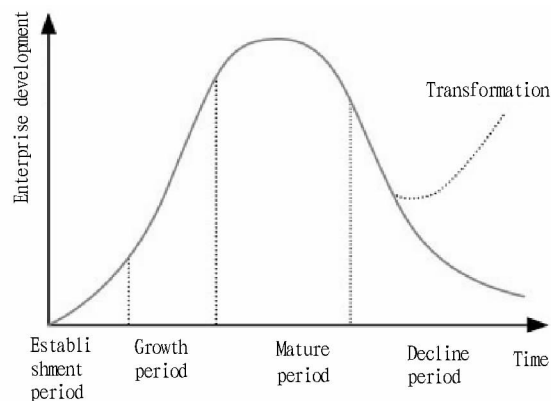


Fig.1 Enterprise life cycle growth theory

## 2.2 Enterprisers and entrepreneurial spirit American

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economist Drucker stated that enterprisers are innovators, they are bold to assume risks, seek innovation source, and are good at capturing changes, and turning changes into development opportunities. Enterpriser is a concept in economics and it represents a type of production factor, rather than a duty. In a broad sense, different fields of scholars give different definitions of enterpriser. Thus, we define the enterpriser from the perspective of management science and economics. In this study, an enterpriser is a person who takes enterprise operation as occupation and is special human capital with entrepreneurial spirit. In the process of enterprise operation, enterpriser makes analysis and judgment, comprehensive decision-making, organization and coordination in production and transaction activities relying on their professional knowledge and experience, and learn innovation activities and assumes risks, to reach long-term development and self-benefit maximization. Miller (1983) firstly put forward the concept of entrepreneurial spirit<sup>[1]</sup>. Scholars started believing that entrepreneurial spirit is a means of value creation and innovation. The entrepreneurial spirit can raise position of an enterprise, improve in-house structure, lift competitive power of enterprise, and help enterprise to realize constant growth. However, there is still no generally recognized definition of entrepreneurial spirit. Burgelman from the perspective of resource combination<sup>[2]</sup>, Ginsberg from the perspective of organization strategy<sup>[3]</sup>, Zahra from the perspective of improving profitability, defined the entrepreneurial spirit; Sharma and Chrisman<sup>[4]</sup> divided entrepreneurial spirit into strategic renewal, innovation, and risk activities. Strategic renewal is to change product structure, target market, and competition strategy of enterprise. Innovation means product development, technological innovation, production process reengineering, and renewal of organization and management system. Risk activities refer to developing new areas and entering a new market.

### 2.3 The relationship between entrepreneurial spirit and enterprise performance

**2.3.1** Influence of enterprise on entrepreneurial spirit. Miller studied factors influencing entrepreneurial spirit from organization structure, strategies and external environment. Slevin discussed such external factors as dynamic, hostile and technology complicate factors, strategic factors and organization resources such as competition strategies and resource management vision, as well as internal factors such as enterprise culture and top management.

**2.3.2** The relationship between stock right structure and entrepreneurial spirit. From the perspective of top management team, Jiang Chunyan made an empirical analysis and found that CEO transformational leadership, adventure tendency of top management team, behavior consolidation of top management team, long-term incentive mechanism of top management team, and separate responsibility of top management team have significant influence on entrepreneurial spirit<sup>[5]</sup>.

**2.3.3** Effect of entrepreneurial spirit on growth of small and medium sized enterprises. Jiao Xiaobo (2014) analyzed effect of entrepreneurial spirit on growth of small and medium sized enterpri-

ses from individuals, organizations and society, as illustrated in Fig. 2. Taking large enterprises and SMEs as the research object, Antoncic (2001) proved that the entrepreneurial spirit has a positive impact on enterprise performance. Scholars studied the entrepreneurial spirit from the perspective of organizational learning, environmental uncertainty and the performance of enterprises. Liu Bing found that enterprises with entrepreneurial spirit have a higher market share and profit margins, the entrepreneurship spirit is also favorable for lifting the competitiveness of enterprises, and promoting the growth of enterprise performance<sup>[7]</sup>. Zahra *et al.* believed that there is positive correlation between entrepreneurial spirit and profitability, performance, growth, and risk of enterprises<sup>[8]</sup>. Dess *et al.* developed a periodic model table for entrepreneurial spirit, organizational learning and business knowledge, reflecting that the entrepreneurial spirit exerts a positive impact on organizational learning. The entrepreneurial spirit has the value of encouraging employees, enterprisers encourage employees to continuously learn and provide excellent learning atmosphere and environment for employees<sup>[9]</sup>. Chen Weidong established the structural equation model for the relationship between entrepreneurial spirit and enterprise performance, analyzed the sample data of 112 enterprises, and found organizational learning exerts an indirect effect on enterprise performance through organizational learning, while environmental uncertainty exerts an influence on enterprise performance through two paths, "environmental uncertainty - entrepreneurial spirit - organizational learning - enterprise performance" and "environmental uncertainty - organizational learning - enterprise performance"<sup>[10]</sup>, as shown in Fig. 3. He reached the conclusion that environmental uncertainty is an external impetus to the formation of entrepreneurial spirit and it exerts a positive impact on organizational learning by stimulating entrepreneurial spirit.

Based on field interview of 206 senior managers and 179 copies of valid questionnaire, Chen Zhongwei made data analysis and found that there is significantly positive correlation between entrepreneurial team, entrepreneurial spirit, team performance, and enterprise performance, and team performance plays an intermediate role for entrepreneurial spirit and enterprise performance. The effect of entrepreneurial spirit is significant on team performance and enterprise performance<sup>[11]</sup>.

## 3 Private entrepreneurial spirit with Chinese characteristics

### 3.1 Spiritual and cultural origins of private enterprisers

Private entrepreneurial spirit is not only the core competitiveness of private enterprises, but also the soul of cultural construction of private enterprises. Different development threads, different geographical, political and cultural origins create different entrepreneurial spirit. For example, there is a huge gap between entrepreneurial spirit of American enterprises and Chinese enterprises. American full market competition and liberal policies provide excellent and loose environment for enterprise development; in the Clinton era, America advocated the "entrepreneurial government", in other words, government changes to a service provider

from an administrator, which greatly stimulates the vitality of enterprises and stimulates the entrepreneurial spirit. Chinese government continues to play the role of administrator, puts in a great

deal of efforts, and sets high threshold of market access, so the profitability space of private enterprises is limited.

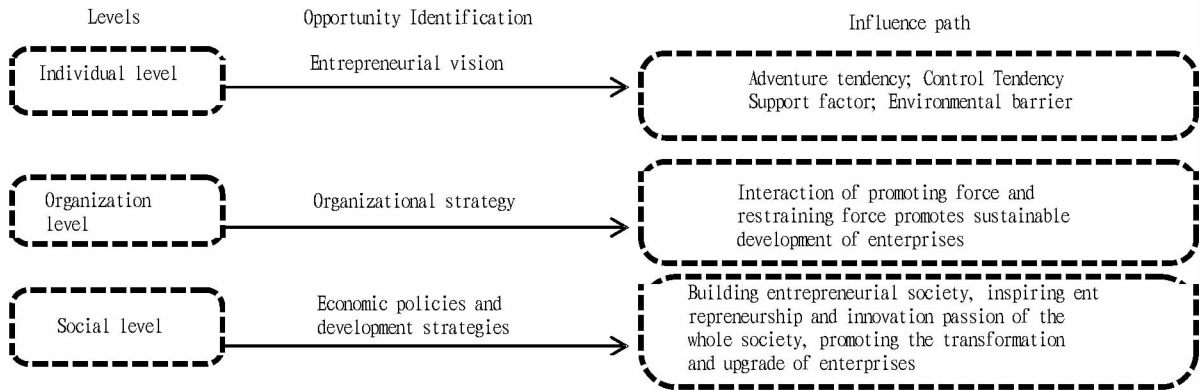


Fig. 2 Entrepreneurial spirit at three levels

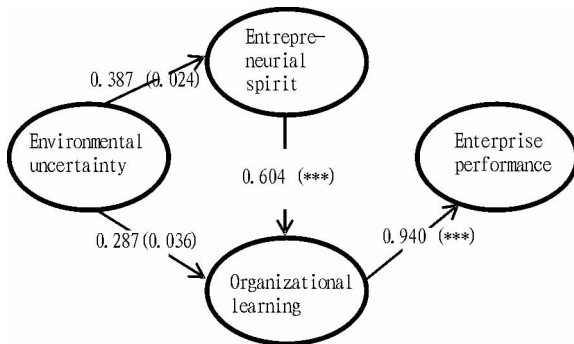


Fig. 3 Structural equation model for the relationship between entrepreneurial spirit and enterprise performance

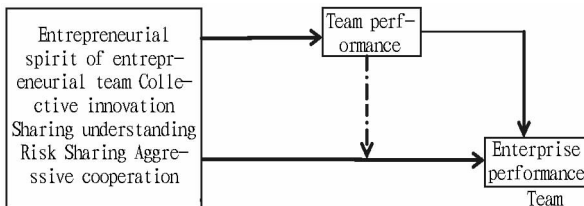


Fig. 4 Entrepreneurial spirit of entrepreneurial team and team performance

Every country or nation has its characteristic culture, the cultural development of private enterprises grows in ethnic culture, and is rooted in China's unique cultural background, geographical features, and institutional environment, etc. (i) Traditional thought in private entrepreneurial spirit. The influence of traditional culture on private enterprisers can be traced back to ideology of Confucianism, Taoism and Legalism. Confucian thought is the main thought of Chinese traditional society. Confucianists advocate Benevolence, Righteousness, Manners, Wisdom, and Credit, and advocate people to adapt to the changes in the universe and the social rules, instead of playing subjective initiative to change. The doctrine of the golden mean stresses opposition and unity of progress and conservative, utilitarian and anti-utilitarian,

competition and anti-competition. To a certain extent, it improves credit quality of entrepreneurial spirit, but suppresses adventure and competition spirit of private enterprisers. Taoism was the foundation of Laozi's philosophy. "Governing by doing nothing that goes against nature" was the core of his political ideology. "Tao gave birth to the One; The One gave birth successively to two things, Three things, up to ten thousand." "All creatures under heaven are the products of Being, Being itself is the product of Not-being". Laozi advocated abandoning social system and pursuing absolute mental freedom. However, such inactive thought restricts enterprising spirit. Legalists advocates rule by laws. Legalists draw a clear-cut line between reward and punishment. Such thought is favorable for establishing perfect rules and regulations, making clear authorities & responsibilities, stimulating enthusiasm of workers, and increasing productivity of enterprises. (ii) The regional characteristics of entrepreneurial spirit. The entrepreneurial spirit is mainly originated from marine culture. Marine spirit contains the mutual cooperation, spirit of being brave in making innovations, and the spirit of adventure and exploration. At present, however, the concept of marine spirit becomes weak and weak, it starts to value agricultural culture and land and political ideas. The entrepreneurial spirit firstly appeared in coastal areas. Coastal areas are close to marines, trade is prosperous, commercial activities are flourishing, and commodity economy develops rapidly, and capitalism sprouts. Culture of different regions exchanged and collided in coastal areas, and a group of "fringe people" appeared in coastal areas.

**3.2 Spiritual traits of Chinese private enterprisers** Chinese Enterpriser Survey System carried out a survey named "Understanding and Comment of Enterprise Operators about Entrepreneurial Spirit" in 2009 and defined entrepreneurial spirit from innovation awareness, adventure awareness, opportunity acuteness, and challenge awareness. (i) Innovation awareness. Innovation is the soul of enterprisers. Great enterprisers must have innovation awareness and innovation drives enterprise progress. Innovation is a major characteristic different from general operators. Enterpris-

ers with innovation awareness can find opportunities other people can not find and think out methods others can not think out, organize resources others can not organize, realize resource allocation others can not allocate, and finally realize innovation of management mode, improvement of production methods, create new products and new business mode. Innovation can be manifested in products, technologies, organizational form, market, human resource, and leadership. (ii) Adventure spirit. An enterprise without adventure spirit can not break through its own enterprise. Without adventure spirit, an enterprise will lose ability of exploring new market. Adventure is nature of enterpriser. Richard and Knight combined entrepreneurial spirit and risk (uncertainty) together. An enterprise will not succeed if not taking risk. Adventure spirit of enterpriser is mainly manifested in formulation, selection, determination and implementation of strategies, decision of expansion or shrinkage of production fields and scale, research and development and application management of new technologies, selection of new market, protection and consolidation of original market, deletion and addition of product types, formulation of product price strategies. (iii) Opportunity acuteness. In messy environment, ability of recognition and capturing opportunities is an essential part of entrepreneurial spirit. The opportunity acuteness is manifested in enterprisers are more cautious when market situation is uncertain, take proactive measures in competition, good at rapidly catching fast changing market opportunities, and have an insight into market opportunities others can not see, (iv) Challenge spirit. The challenge spirit refers to the degree of face-to-face conflict with competitors. It determines what degree they attack competitors actively. It is mainly manifested in actively enterprising, being brave in making breakthrough, overcoming the idea of clinging to old practices and refusing to accept new thing, and having determination of making progress.

4 Weaknesses of private entrepreneurial spirit

4.1 Self evaluation of adventure awareness is low and the willingness of investing in high-risk and high-return projects is low From Table 1, we can see that the mean value of private enterprises' evaluation is 2.73 about "decision makers tending to high-risk high-return project investment", which is lower than the overall average value (2.76). The mean value of private enterprises' evaluation is 3.84 about "decision maker full of courage", slightly higher than the overall average (3.8). Thus, if enterprisers are too cautious when facing high-risk high-return project, they may miss opportunities. From the special report of Growth and Development of Chinese Private Enterprises in 2009, we can find that 62.7% operators strongly or somewhat agree about the "decision maker full of courage", and 22.3% operators strongly or somewhat agree about the "decision makers tending to high-risk high-return project investment"<sup>[12]</sup>.

4.2 Self-evaluation about the challenge awareness is not high, lack of initiative to challenge competitors 71% enterprise operators "strongly" or "somewhat" agree about "avoiding

face-to-face conflict with competitors", with a mean value of 2.04; 49.1% "strongly" or "somewhat" agree about "usually not taking the initiative to challenge competitors", with a mean value of 2.53<sup>[13]</sup>. From Table 2, we can see that as to the statement of "avoiding face-to-face conflict with competitors", the mean value of private enterprisers is 2.01, lower than the average level 2.04; as to the statement of "usually not taking the initiative to challenge competitors", the mean value is 2.48, lower than the average level 2.53. It indicates that private enterprisers are more willing to face challenges than state-owned enterprises and state-holding enterprises, but in general, their challenge awareness is still weak.

Table 1 Recognition degree and comparison of enterprise operators about enterprisers' adventure awareness

|   | Decision makers<br>tending to high-risk<br>high-return project<br>investment | Decision<br>maker full<br>of courage |
|---|--|--------------------------------------|
| General value                             | 2.76   | 3.80                                 |
| Large enterprises                         | 2.76   | 3.83                                 |
| Medium sized enterprises                  | 2.70   | 3.85                                 |
| Small sized enterprises                   | 2.70   | 3.74                                 |
| State-owned and state holding enterprises | 2.73   | 3.62                                 |
| Private enterprises                       | 2.73   | 3.84                                 |

5 Influence of entrepreneurial spirit on growth of small and medium sized private enterprises

5.1 Influence of entrepreneurial spirit at individual level on growth of small and medium sized private enterprises The study on entrepreneurial spirit at individual level is to study behavior of enterprisers, formulate psychological scale to make quantitative study on entrepreneurial tendency of enterprisers, and observe specific behavior of enterprisers in the entrepreneurial process. Some scholars focus on the growth experience of enterprisers, some define the enterpriser from the perspective of entrepreneurial spirit. Abound (1971) defined the enterpriser as a confident, objective-oriented, creative and inventive person with moderate adventure spirit. Peter (1992) summarized findings of previous scholars, and made a comparative study on by using the business consulting table, the Briggs Myers- type indicator scale, and so on between entrepreneurs and non-entrepreneurs. Then scholars studied entrepreneurial spirit extended from personal entrepreneurial characteristics to the environment, and the studies of entrepreneurial spirit have a great deal of changes, from closed individual characteristics into open environment. Christian and Franke combined the variables of the scale of psychological traits and entrepreneurial environment variables, and measured 512 students in Massachusetts Institute of Technology, and verified the model of entrepreneurial intention. Their study further indicates that countries should implement the policy to encourage entrepreneurial spirit, university education should support education of the entrepreneurial spirit, increase studies about entrepreneurial spirit, improve student's entrepreneurial inclination, and eliminate barriers of entrepreneurial spirit for university students.

**Table 2 Recognition degree and comparison of enterprise operators about enterprisers' challenge awareness**

|   | Usually avoiding<br>face-to-face<br>conflict with<br>competitors | Usually not<br>taking the initiative<br>to challenge<br>competitors |
|---|--|---|
| General value                             | 2.04   | 2.53  |
| Large enterprises                         | 2.18   | 2.69  |
| Medium sized enterprises                  | 2.04   | 2.56  |
| Small sized enterprises                   | 2.01   | 2.46  |
| State-owned and state holding enterprises | 2.14   | 2.69  |
| Private enterprises                       | 2.01   | 2.48  |

According to Chinese Enterprisers Survey, the adventure inclination and control orientation of small and medium-sized enterprise operators are lower than large and medium sized enterprises. At early stage of establishment of small and medium-sized enterprises, the degree of willingness to start an undertaking, the ability of enterprisers, the ability to adapt to the environment, are the key factors deciding whether enterprises can succeed or not.

From the perspective of enterprise, it is required to strengthen entrepreneurial awareness and improve knowledge and skills through training and education. Besides, it is recommended to create favorable external environment for small and medium-sized enterprises, advocate the entrepreneurial spirit, encourage entrepreneurial undertaking starting, to form cultural atmosphere with entrepreneurial characteristics and guide the whole society to help and support small and medium-sized enterprises. From the perspective of individual, enterprisers should adapt to changes of the times, constantly learn new knowledge, enhance the management level, update the concept of thinking, lift the awareness of adventure and challenge, and actively participate in market competition, get good at finding problems, grasp the market opportunities, and optimize the allocation of resources, to succeed in starting an undertaking.

## 5.2 Influence of entrepreneurial spirit at organizational level on the growth of small and medium-sized enterprises

After the success in establishment, enterprises will face the problems of how to survive and how to develop. Incomplete statistics show that 62% of U. S. companies live less than 5 years, the average life is 12.5 years for Japanese and European companies. In 1999-2000, there occurred shooting star phenomenon of global enterprises. Therefore, it is of stronger realistic significance to study entrepreneurial spirit at organizational level, and find contribution of entrepreneurial spirit to sustainable development of enterprises. The average life of Chinese small and medium sized enterprises is only 2.9 years by 2013, much shorter than Japanese companies. From the perspective of organizational level, the study of entrepreneurial spirit is to study enterprise as a unit, summarize common features of entrepreneurial spirit based on a large number of enterprises, refine the entrepreneurial spirit, and define the entrepreneurial spirit at the organizational level. Emeric defined the entrepreneurial spirit from competition attitude, strate-

gic orientation (including plan and organization structure), information exchange network and technology. Lynskey stated that the entrepreneurial spirit is a comprehensive manifestation of individual behavior traits and organizational behavior traits. Later, scholars carried out a deep study on the entrepreneurial spirit of organizational level from leadership, corporate culture, organizational framework, enterprise strategies, and incentive mechanism. The entrepreneurial spirit of organizational level is based on business organizations, it promotes play of quality and ability of in-house personnel. Through connecting external environment, enterprises adapt to external policy environment and economic environment and improve organizational productivity. As the driving force of the construction of corporate culture system, the entrepreneurial spirit promotes the establishment of enterprises, the spread of new ideas, exchange and integration of new technology and new knowledge, and provides motive force and support for reform and upgrade, and healthy growth of enterprises.

## 5.3 Influence of entrepreneurial spirit at social level on growth of small and medium sized private enterprises

With constant deepening of studies, the study on the entrepreneurial spirit is also lifted to social level. The entrepreneurial spirit of social level starts from macro perspective and it tries to promote entrepreneurial spirit of the whole society from national level. Besides, it is to stimulate innovation and undertaking starting enthusiasm of the whole society to the maximum extent, making the entrepreneurial spirit become a great force promoting social economic growth. The entrepreneurial spirit at social level focuses on maximization of social value, rather than for profit, but it needs support of commercial undertaking plan, project management, and marketing means. The study on the entrepreneurial spirit at social level is to improve enterprisers' spirit of staff member of the state, to constantly make innovation, assume responsibilities and pioneer and keep forging ahead. Nation and state are living environment and soil of medium and small sized enterprises and play an essential role in growth of small and medium sized enterprises. Without government support, development of small and medium sized enterprises will suffer bottleneck restriction. Therefore, government should provide energetic support for small and medium sized enterprises, help them to promote research and development ability, improve autonomous innovation awareness, and encourage them to cultivate their brands. On the one hand, it is recommended to increase input in research and development; on the other hand, it is recommended to strengthen support for autonomous innovation, guide cooperation and transformation between industry, university and research, and carry on the entrepreneurial spirit at social level.

## 6 Conclusions

In this study, we firstly defined small and medium sized private enterprises, analyzed connotation of the entrepreneurial spirit, and discussed the relationship between the entrepreneurial spirit and enterprise performance. Then, we reviewed spiritual and cultural origins of private enterprisers and summarized traits of Chinese

private entrepreneurial spirit. We discussed the entrepreneurial spirit from individual, organizational and social level, to improve theoretical and practical significance of the entrepreneurial spirit. The entrepreneurial spirit plays a more and more important role in growth of small and medium sized enterprises. Studies on the entrepreneurial spirit involve Management Science, Organizational Behavioral Science, Psychology, and Economics. This study is limited to qualitative analysis, in the hope of providing reference for healthy development of private small and medium sized enterprises and increasing some new content for researches of the entrepreneurial spirit.

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fore, national enterprises should focus on product quality and differentiation, increase research and development input, and improve seed quality; besides, enterprises should provide technical guidance for farmers in the use of seeds; also, enterprises should promote convenience in purchase of seed products and raise the value equity on the original basis. (ii) Cultivating brand equity. Enterprises may create excellent brand image through maintaining enterprise image, key figures, famous figures, and key matters. Besides, maize seed enterprises should set up excellent brand image to raise their brand equity. (iii) Increasing relationship equity. Empirical results indicate that the importance of relationship equity is only second to the value equity in transnational maize seed enterprises. This well explains source of competitive edge of transnational seed enterprises. No matter before use, during use and after use of seeds, transnational seed enterprises provide technical guidance and technical knowledge for customers. This is worth learning. Besides, transnational seed enterprises include three basic attributes of seeds into the relationship equity. This recommends national seed enterprises caring more about persistence of product quality. In sum, national seed enterprises should attach greater importance to great functions of the relationship equity.

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