

The Impact of Business Environment on Entrepreneurship

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Abstract: This paper uses literature research to explore the impact of business environment on entrepreneurship. Through reviewing a series of literatures, it has found that the good business environment is benefit to promote the entrepreneurship and innovation, because it can make the business to collect more funds, operate in a fair environment and obtain the support from government and reduce the risk in the operational process. On the contrary, a bad business environment increases the operational risk, make a business to suffer a loss and lead to the lower productivity. Therefore, in modern China, it needs to use effective government and non-government policy to improve the business environment, through which to attract more investment, and then to promote the national innovation and economic growth.

1. Introduction

1.1 Research Background and Motivation

Business environment, which is with the word of “business” and “environment, it can be defined as a set of conditions such as social, legal, economic, political or institutional that are uncontrollable in natural and impact on the operation of businesses. Entrepreneurship, it aims to study how a new business has created as well as the process of starting a new business. As the research of Li and Pan (2021) shows, business environment affects the productivity and competitiveness of a country or region, while the differentiated direction of business allocation determines the efficiency of a country or region's economic development [1]. Also, Li (2020) stated that the business environment affects entrepreneurial configuration in five ways: market environment, legal environment, economic environment, service environment and social environment [2]. In this research, it aims to discuss the issue of the impact of business environment on entrepreneurship in China and why business environment is positively correlated with entrepreneurship.

1.2 Research Significance

Through this research, it can make audience to understand that in business environment, there are lots of uncertainly or uncontrollable factors which may impact on the business operation. It is also the challenge for a new business. This research will explore how the effective entrepreneurship can make a business to address the uncertainly in business environment, and promote the innovation and growth of the business.

1.3 Research Contents and Framework

This article focuses on how the business environment affects entrepreneurship and its relationship with economic growth; through combing the existing literature research results, discusses how a good marketing environment promotes entrepreneurial innovation, and how a bad marketing environment

restricts entrepreneurial innovation; finally, discuss the business environment Why is it positively related to entrepreneurship, and the impact of different business environments on R&D.

2. Literature review

2.1 The Chinese Business Environment

On October 24, 2019, the World Bank released its Economic and Environmental Report 2020. In 2018, China's global economic ease ranking quickly rose to 32nd and jumped to 15th and 30th in the world in 2019. According to the World Bank, China is among the world's top 10 economies for ease of doing business for the second year in a row, thanks to a "vigorous reform agenda". It can be seen the ranking change chart in the following figure.

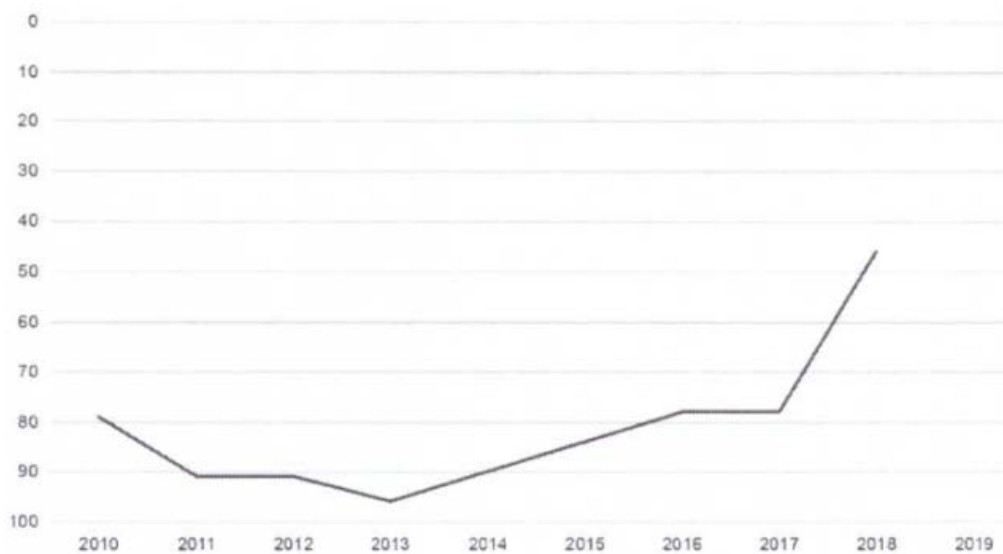


Figure 1. The ranking of Chinese business environment in past years.

Figure1 shows that before 2013, the ranking of Chinese business environment was at the back, maybe in 2013, under the guidance of Xi president, China began to implement the “One Belt and One Road” policy, which positively improve the Chinese investment environment. Since then, the ranking of Chinese business environment is rising quickly. Every coin has two sides, even the ranking of Chinese business environment is rising, but with the development of economic globalization, developed countries have set up various forms of trade barriers, which have led China to be in an unfavorable international business environment. Developed countries have been benefiting from China's high-quality manufacturing and low-priced raw materials, but unfair trade agreements have to some extent hindered the innovation and development of Chinese companies (Cheng 2016) [3]. Market order reflects the market environment of a region, and market access barriers affect the growth process of a business. Disorderly competition or false sales will limit the growth of a business. (Feng, 2020) [4]. Shortage of capital is often the main problem in the growth process of private enterprises, but the process of obtaining capital is not regulated, and credit constraints arise subsequently. By improving the financial system, the state can reduce the cost of credit for private enterprises, reduce credit constraints, and alleviate information asymmetry (Sun & Chen, 2020) [5].

2.2 Business Environment and Development of Entrepreneurship

Throughout the academic research on the relationship between market-based business environment and entrepreneurship, there are two main types of literature: how a good marketing environment promotes entrepreneurship development and how a bad marketing environment constrains entrepreneurship development. This paper analyzes, classifies and summarizes the existing literature. Shleifer & Vishny (1997) argue that entrepreneurship helps to expand market size, but over-expansion of entrepreneurship tends to lead to over-investment [6]. Heaton (2002) finds that overconfident

entrepreneurs who are optimistic about market fluctuations underestimate the occurrence of risk and thus lead to over-investment by developing a two-stage model [7]. Hart (1995) argues that if the business environment can be optimized, the phenomenon of "investment hunger" caused by personal interests of entrepreneurs can be effectively regulated. Based on residual productivity theory [8], Lin et al. (2010) suggests that when entrepreneurs reach a consensus on a potential industry, they will be eager to invest and invest in similar industries, which will lead to fierce market competition, lower corporate welfare, and massive unemployment, resulting in imbalance in the business environment [9]. Baumol (1990) found that if there is an asymmetry between the information disclosed about the business environment and the information available to entrepreneurs, entrepreneurs may act under uncertainty, resulting in "rising tides" and over-investment [10]. Tang and Wu suggest a favorable business environment means a fast-growing financing environment that helps expand access to financing for business innovation, allows companies to obtain more funds for innovative activities, improves R&D efficiency, and reduces potential information asymmetries in the R&D investment process. Qu and Guo (2018) argue that government subsidies to attract investment can promote business investment, but excessive incentives can also lead to over-investment, and for developing countries that rely on "investment incentives" [11]. Li and Liu (2017) found through an empirical study that there are significant regional differences in entrepreneurship development, and government intervention may lead to overdevelopment of entrepreneurship; a reasonable and perfect business environment shaping can effectively inhibit the overdevelopment of enterprises [12]. Shao and Li (2021) found that optimizing the business environment may promote a "surge" in private business investment, which in turn may have an impact on overinvestment; optimizing the market environment makes overinvestment in large and old firms more attractive than in small firms and small enterprises. Business environment affects the quality development of enterprises [13].

Besides, a bad marketing environment might restrict entrepreneurship & innovation. This is because a bad marketing environment increase the operational risk, harms the market equality and even lead to the bankruptcy of the business. Also, the entrepreneur is not exactly a "self-interested" player, and if there is no reasonable institutional environment or playing space, the entrepreneur will pursue leasing rather than innovation (Cai and Wan, 2012) [14]. The lack of internal product and external marketing resources for R&D will limit the growth of the firm (Yang, 2014) [15]. The development of entrepreneurship in China is limited by the lack of overseas business environment networks, which to some extent limits the internationalization of enterprises (Zhang, 2016) [16]. If the business environment cannot be improved, rent-seeking and illegitimate operations will increase, and companies will have to increase their transaction costs and process time, thus not having enough time and energy to carry out their business activities (Xia, 2019) [17]. A poor economic environment will increase the operating costs of a business. Administrative redundancy will delay business operations and reduce capital turnover; non-application of the law will lead to harmful debts between firms, resulting in increased non-operating expenses; corruption in the application of the law will lead to higher rent-seeking costs, which will affect the operating costs of firms (Xie, 2020) [18].

2.3 Why Business Environment Positively Correlates with Entrepreneurship

As the research of Chen (2020) shows, a financial environment is conducive to business investment, fairness in reducing business transaction risks, and government support in saving business transaction costs, thus enhancing business confidence and promoting quality business development [19]. Also, He (2018) points out that the higher the level of government integrity, the more active the R&D activities of enterprises; the higher the administrative efficiency, the lower the R&D risks of enterprises; the higher the financial environment, the higher the R&D funding of enterprises. Based on which, it can be seen that the business environment is positively correlated with entrepreneurship [20]. Also, business environment affects firms' export trade. The public sector promotes the development of enterprises' foreign trade and improves the terms of trade by improving the regulatory framework, sound land and labor markets, and other factors (Zhang, 2017) [21]. Shao and Li (2021) conclude that optimizing the business environment will promote trade regime reform, stimulate excessive competition in the market, free up private entrepreneurs, and increase CEO confidence [13]. Han et al

(2021) divided entrepreneurship into entrepreneurship and entrepreneurial innovation based on the division of production in Baumol firms. The view that a good business environment can save entrepreneurs a lot of institutional transaction costs, improve their living conditions, and allow them to devote their energy to the productive sector, from survival to entrepreneurship to business opportunities, and promote technological innovation was proposed [22]. As the research of Li & Pan (2021) shows, the period of business environment formed by policies such as taxation and land has passed. Nowadays, the legalized business environment has become the most critical factor in determining the development of enterprises [1]. The rule of law provides the most basic protection of rights and interests for private enterprises and market players, but China's business environment faces two problems of many incentive policies but insufficient supply of regulatory policies and a large urban-rural gap (Zhang et al, 2019) [23]. According to the news report from East Money Net 2021, some employees have behaviors that destroy the business environment. Analyzed in terms of establishing a fair business system and addressing today's behaviors that are detrimental to business development and the business environment, China has an inadequate governance structure for the business environment and limited ability to enforce agreements and stop negative external influences (Wang, 2021) [24]

3. Conclusion

This paper explores the relationship between business environment and entrepreneurship. In conclusion, in modern China, it is with enjoyable business in contrast with past, even it is with the issue such as the unfavorable international business environment and lack of capital for private enterprise. As the good marketing and business environment can promote the innovation and growth of the business, so in the future, China needs to improve its competitiveness in the international market, eliminate the trade barriers and establish an international business environment. In addition, the city's resources, geographical environment, government subsidies and other factors have a great role in promoting enterprise innovation (Dong et.al, 2012). The role of non-governmental organizations is also very important. When making economic decisions, the government should hear more about the feelings of enterprises and the public about the business environment. The supervisory mechanisms can increase accountability and understand the difference between actual circumstances and expectations. Therefore, a favorable soft business environment in cities promotes urban economic development.

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