

# DYNAMIC EVOLUTION OF GOVERNMENT GOVERNANCE IN THE ENTREPRENEURIAL ECOSYSTEM: A GROWTH PERSPECTIVE FOR START-UP COMPANIES

Jixun Liu<sup>1</sup>, Zhaoxing Wang<sup>2\*</sup>

<sup>1</sup> School of Management, Zhejiang Shuren University, Hangzhou 310015, China;

<sup>2</sup> School of Public & Management, Tsinghua University, Beijing, China, 100084.

Corresponding author's email: hzscholarly@163.com

**Abstract:** Experience from several advanced economies shows that active government involvement is important for developing entrepreneurial ecosystem and start-up companies. Should Chinese government also participate in entrepreneurial ecosystem development? Much governance policies and measures by Chinese government has been undertaken to support innovation and entrepreneurship, but do these things bring benefits at home? Rooted in the empirical approach, this study offers a case analysis of governance and ecosystems based on a selection of Hangzhou Dream Town, and find local government plays a vital role in the development of local entrepreneurial ecosystem. Furthermore, this study also identifies governance mechanisms – Government-led and market-based that moderate the development of local entrepreneurial ecosystem.

**Keywords:** Entrepreneurial Ecosystem; Start-Up Companies; Government Governance; Dream Town

## 1. INTRODUCTION

Much has been written about the positive impact of market factors on entrepreneurial ecosystem of host economies [1, 2]. In contrast, very few studies have considered the impact of government governance on the entrepreneurial ecosystem of home economies, especially in the contest of the governance made by emerging economies government, such as China [3]. Yet China government inaugurated indigenous innovation policy science, to avoid the confronting the limitation of “inordinately dependent on imported technology” [2, 4]. Furthermore, there is an extensive literature suggesting that several of China’s start-up companies (e.g. DJI-Da Jiang Innovations) achieve success since the implementation of indigenous innovation policy [3]. In which case it is reasonable to suppose that government governance may have a significant impact upon the entrepreneurial ecosystem of host economies.

This study considers the impact of government governance on entrepreneurial ecosystem in the context of China. By the end of 2019, the total number of entrepreneurial incubation institutions nationwide has reached 13,206, of which 5,206 are incubators for science and technology enterprises, and a total of 8,000 for Makerspace. From the development of entrepreneurial ecosystem, it is interactive integration process which includes market guiding, government supporting and participation [5]. Nearly 160,900 Chinese start-up companies have been graduated from business incubators. Furthermore, there is considerable evidence to suggest that many Chinese start-up companies won policy or finance support from government [3, 6]. China therefore provides an appropriate context to explore the link between government governance and entrepreneurial ecosystem.

This paper draws upon governance theory, specially exploring how domestic Chinese entrepreneurial ecosystem is affected by government governance. This study contributes to existing literature in following ways. Firstly, this study provide evidence for Chinese government participate in entrepreneurial ecosystem development, highlighting the positive influence of government governance on domestic entrepreneurial ecosystem. Secondly, this study attempts to understand the vital role of government governance in facilitating the growth of Start-Up Companies in China. Thirdly, this study unravels the interactive relationship between government and entrepreneurial ecosystem as well as the diversity and indispensability in the China in affecting government effected through governance.

This paper is organised as follows. Section 1 presented the background of this study. In Section 2, this study reviews the relevant literature. In Section 3, it describes the case and the single case study specification, explains the estimation methodology, and presents some analysis. The propositions are presented and discussed in Section 4. The final section summarises the findings of the study, outlines the practical implications, and highlights the limitations.

## **2. LITERATURE REVIEW**

There is a considerable literature suggest that the development of entrepreneurial ecosystem and innovation not just between enterprises and entrepreneurs, but also between government, such as states or province government [2, 5, 6]. This is because the government is primarily responsible for formulating government policies, plans and strategies for entrepreneurial ecosystem and innovation development, as well as co-ordinating the work of other government bureaux and departments on developments that have an impact on innovation and entrepreneurial activities [7]. This is particularly the case of the high level in the economy development and the urbanization. Furthermore, the process of urbanization has contributed largely to the social and economic development in many emerging economies, such as, China [6-8].

The extant literature has pointed out that the institutional dependent nature of entrepreneurial activities is the subject of institutional theory. Bruton et al. [9] and Tolbert et al. [10] proposed institutional innovation theory as systems “The central theme is that organizational structures developed in industrialized countries are viewed by policy makers and other states as signals of progress towards modern institutional development and hence worthy of financial or policy support”. Iammarino [11] put forward that institutional theory constitute “Regardless of the positive or negative consequences of their activities, the introduction and maintenance of certain forms in entrepreneurial ecosystem and government serves to communicate this commitment. Institutional theory provides an account of the growth and structure of the entrepreneurial ecosystem and state research sectors, as successful organizations in industrialized nations operate as models far from their original contexts” [1, 3, 10]. Therefore, institutional theory is particularly appropriate when examining the determinants of entrepreneurial activities in the context of economies which contain the rapid development in terms of industrialize. Although over the last decade government increasingly have been plays the role in entrepreneurial ecosystem, how government governance influences entrepreneurial ecosystem has been understudied.

It is customary in the governance theory to explain the government governance behaviour [4-6, 9]. Authors have suggested that the government has created economic and social environments that are conducive to entrepreneurship by adjusting laws and regulations or providing education and training opportunities [2], and by providing tax incentives [7], public financial investment to reducing administrative barriers for entrepreneurs [3]. Some scholars argue that the government plays an irreplaceable role in the construction and maintenance of entrepreneurial ecosystem [12]. However, there is no consensus on the role of government in current research [13].

Indeed, it has been suggested that entrepreneurial ecosystem is centred on entrepreneurs [14]. In other words, the government needs to change its role into a "supplier" of the entrepreneurial ecosystem, rather than a "leader" in the field of public governance [15]. Colombo argues that in the entrepreneurial ecosystem, the best situation for government intervention is "supplier" or wise dictator, but in most cases, it will destroy the existing balance [9]. Mason and Brown [13] suggest that in order to promote the growth of new enterprises, the government should not only play the role of resource provider, but also play the role of contact person, and promote the contact and cooperation of various resources and participants in the entrepreneurial ecosystem.

In context of China, there is a considerable literature suggest that support for entrepreneurial ecosystem is prominent in the social transformation period [4-6, 9]. Therefore, the China State Council announced National 14<sup>th</sup> Five-Year Plan and supplementary strategic documents emphasize the central role of entrepreneurial environment and business start-ups for the country's growth prospects and job's creations (PRC State Council, 2021). In fact, the emphasis of the Chinese central government on local entrepreneurship can be traced to policy aspirations aiming at stimulating mass entrepreneurship and innovation development at the urban level [5]. For instance, in March 2014 the Chinese

Government issued the first outline of their urbanization plan National New-Type Urbanization Plan (2014-2020) that sets out a blueprint for China's future urbanization and economic development [6]. The new plan aims to promote efficient, people-oriented, just, and ecologically liveable development [16]. This policy has created a favourable development environment for entrepreneurial ecosystem [3, 6]. Despite this growing interest in China's entrepreneurial ecosystem, few studies have yet considered the effects of government on entrepreneurial ecosystem development through governance means or how government interacts with governance factors, such as governance structure, mode and operation mechanism [3, 9].

### **3. METHODOLOGY**

#### **3.1 Single Case Study**

The impact of government governance on China's entrepreneurial ecosystem is a new phenomenon and it has not been subjected to extensive academic research. While most studies have focused on the entrepreneurial ecosystem of developed countries, this study concentrate on the new topic of Chinese entrepreneurial ecosystem and analyse the government governance factors.

This study employs the contextualized explanation and processual case study approach. Due to the small sample size and the low survey answer rate, questionnaire-based surveys and second-hand data from statistics yearbook have been proven unsuitable for quantitative empirical analysis of impact of government governance on China's entrepreneurial ecosystem. The key question in this study is trying to answer how the Chinese government governance effect entrepreneurial ecosystem. Yin [17] argues that "how" or "why" questions have greater explanatory power in case studies since "such questions deal with operational links needing to be traced over time, rather than mere frequencies or incidence". Eisenhardt [18] proposed the process of building theory from case studies and points out that "this research approach is especially appropriate in new topic areas". To this end, this study deliberately chooses the single case study approach to explore this uncharted theoretical ground. Existing study, indeed use multiple-case to investigate the development of entrepreneurial ecosystem, the single case allows us to deep analysis and increases internal validity by facilitating the tracking of cause and effect [19, 20].

#### **3.2 Case Selection**

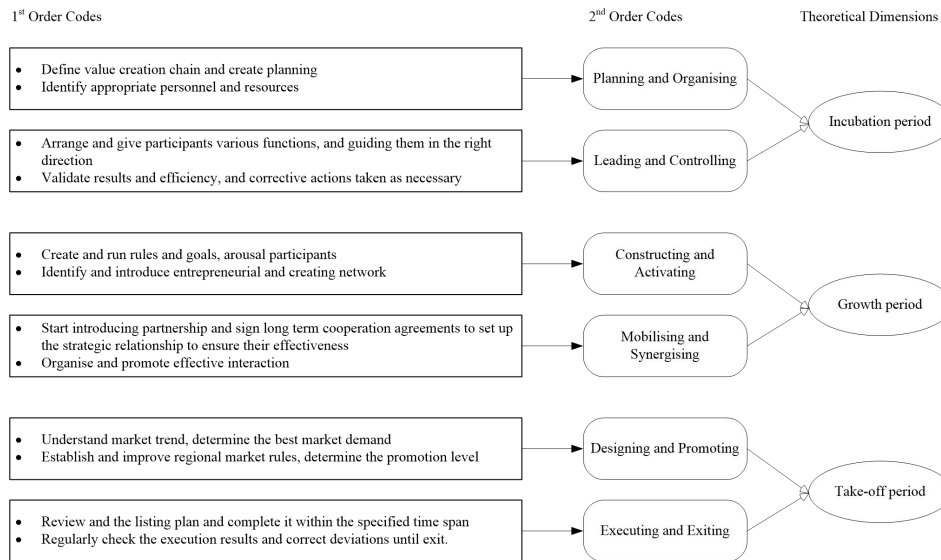
The selected case is Dream Town, which is flagship Chinese smart project aiming at promoting economic development and quality of life through Internet-related start up innovation. Dream Town's main location is in the eastern China of Hangzhou city, Zhejiang province and has been exporting its operation model to other cities in Yangtze Delta region. Dream Town was driven by multilevel governmental priorities, in response to state rationales for entrepreneurship policymaking, the Dream Town was strongly promoted by the Hangzhou municipal government and the Zhejiang provincial government. The Dream Town site was foreseen by these subnational governments as potentially forming a new motor of the information economy capable of promoting economic growth, entrepreneurship and innovation abilities, and social progress at the citywide and provincial-wide level. Besides serving as a test-bed site in the Hangzhou territory, Dream Town aims to become a new norm of Internet incubation for smart development throughout China. Thus, the case is good example of government's involvement in entrepreneurship and suggesting that it perceives benefits.

#### **3.3 Data Collection**

In this study, the sources of secondary data included Dream Town operation report, information from website, enterprises documents from private ways and personal observations. Meanwhile, the multiple sources of relative evidence increased the discussion by allowing the triangulation on key issue to cross examine insights and findings [17].

Furthermore, for triangulation purposes, this study obtained secondary data from archives, for instance newspapers,

media articles from the national and international press, websites, enterprises brochures and promotional materials, and industry report. For the data analysis, this study uses the grounded theory approach [21]. This study elucidates the data analysis process by displaying the data structure in Figure 1, showing first-order coding, second-order coding and aggregated theoretical dimensions. Meanwhile the measures used for ensuring validity and reliability throughout the case study are summarised in.



**Fig. 1** Overview of data structure

## 4. Case: Dream Town

### 4.1 Case Description

Dream Town, located at the ancient town Cangqian town, Hangzhou city, is the first batch characteristic town of Zhejiang province. Occupying an area of three-square kilometres, the town contains four parts – Internet Village, Entrepreneurship Fair, Angel Village and Entrepreneur Street. It strives to be a model of maker space and characteristic town and a new economic growth point.

The Dream Town site in Hangzhou supports Internet-related start-ups to innovate and grow. There are two ways for start-ups to enter Dream Town. The first is to pass the admission competition organised every month. The selection committee consists of an independent panel of experts from the academic, financial and industrial sectors. The second is through informal interactions with incubators located on-site which evaluate proposed project plans and decide whether they would like to support them. The support offered to start-ups is multi-faceted. For example, annual financial allowance coupon of ¥20,000 (\$3,000) is offered to be used in exchange of services (e.g. legal; financial planning; marketing) provided by the Dream Town management company. Further assistance involves the granting of free office space for up to three years, and subsidies for on-site accommodation rent and utility costs. Moreover, seasonal competitions are organised by the Dream Town administration office where business proposals may receive subsidy up to ¥200,000 (\$30,000). Start-ups are also eligible for low-cost lending (e.g. discounted loans) of over ¥1 mil (\$150,000) through the Venture Loan Risk Pool mechanism setup by FSTC (Hangzhou FSTC 2015). What is more, incubators provide financial and business-related support (e.g. business planning; connection with other start-ups and external entities; seed finance). Also, many events take place on-site where start-ups exchange ideas, share lessons and explore collaborative opportunities.

### 4.2 Governance Description

Dream Town is devoted to establishing a world-class entrepreneurship centre featuring “Internet +”, with an open

entrepreneurial ecosystem of low cost, sufficient factors and all conveniences, among which the most essential of the ecosystem is the entrepreneurs. It starts with the ideas of entrepreneurs, and hones into a start-up project, and finally develops into a newly established enterprise. The medium layer is the ecosystem of the government and the agencies, who define the prospects and joint objectives of the entrepreneurial ecosystem, make policies on entrepreneurship and introduce relevant resources. The outer rim is the ecosystem of investment institutions, incubation platforms and intermediary service providers. The Dream Town entrepreneurial ecosystem created by government boosts the establishment and development of start-ups, whose governance practice can be narrated as follows in order of the growth stage of start-ups.

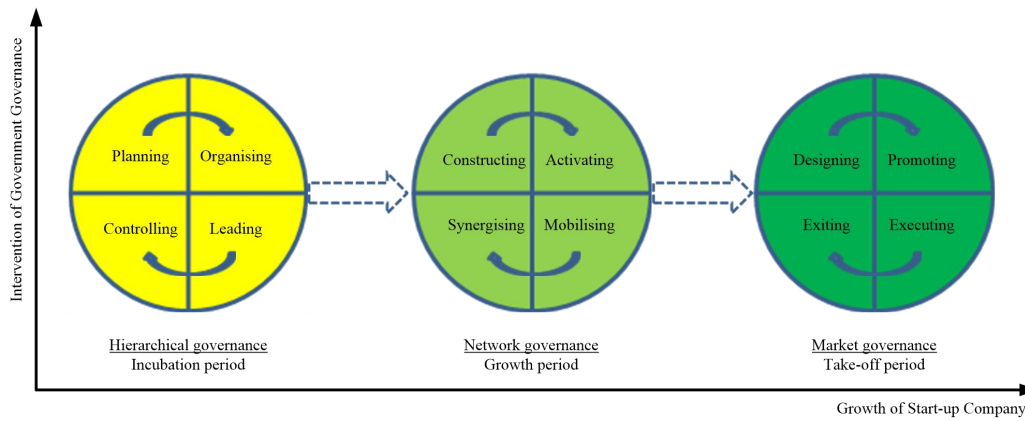
The stage of incubation (germination stage) is the period when entrepreneurs have their ideas, seek for entrepreneurial ecosystems and incubation institutions to establish the start-up project and finish the registration of the enterprise. By this time, the core of the entrepreneurial ecosystem is the enterprises, whose core is the entrepreneur. To guarantee the sustainable development of the entrepreneurial ecosystem, Dream Town recruits talents facing to the whole society and greatly promotes the concept of itself to attract various talents to start their own business or to participate in a start-up team. A start up team can instantly settle in Dream Town as long as it passes the screening process and gets confirmed by the incubation platform, who can further enjoy the one-stop service and subsidies of innovation vouchers in the incubation platform that introduces it. With a series of activities and policies, a total of 23,324 entrepreneurs and 2,879 entrepreneurial projects have been settle in Dream Town in the past 7 years of 2015-2022, receiving the annual financial allowance coupon of ¥20,000 (\$3,000).

The stage of growth (blossom stage) is the period when the start-up team focuses on the development of products and the realization of minimum viable products, begins the product testing and user experience testing, and finishes the preliminary argument and honing of business model. In 1-2 months after the settlement in Dream Town, the entrepreneurs would receive professional starting-up training and guidance in various forms, and complete a structured, feasible, manageable business plan to boost the realization of products and improve the business promotion plan, after continuous honing from the perspectives of problem verification, product verification, market verification, operation verification and expansion verification. In the past 7 years, 200 start-up projects have obtained the subsidy of ¥200,000 (\$30,000) from Zhejiang Jinkong Investment Management Co., Ltd (fully-owned subsidiary of Finance Department of Zhejiang Province). Meanwhile, the operator of Dream Town, CAIGEN Technology, pushes activity lists and invites start-up teams via the website and APP on mobile phones every month, sharing the knowledge, information and resources that can be marketized.

The take-off stage (fruit stage) is the period when the products of the start-up company have been completed and successfully launched for the first time, and a sustainable and stable sales revenue (may still at a loss) has been obtained. By this time, the organizational construction is basically completed, and the pre-A or series A funding has been started, and it has been transported to the expansion area for industrialization. Start-up companies in this period are in an unconventional stage of development, which requires a large amount of resource investment. The funded start-up projects mentioned above will be selected to Zhejiang Stock Exchange Centre for public listing, and the amount of subsidy will be converted to the share option. Meanwhile, the “Investment and Financing Closed-door Matchmaking”, the “Smartplus Scientific Innovative Projects Matchmaking” and the “CEO Class of BAT Entrepreneurship College” from the series activities of “Dream Training Camp” led by Zhejiang Jinkong Investment Management Co., Ltd would promote the in-depth collaboration of the investors, banks and enterprises, including the investment-loan linkage, alleviating the dilemma of start-ups in obtaining resources to a large extent. Total 254 entrepreneurial projects have financed of ¥13.6 billion (\$2.05 billions) in the past 7 years.

It is a long process for a new venture to start with the idea of entrepreneur, develop into an entrepreneurial project, and finally establish an ascending enterprise, and the projects are confronted with different survival or development dilemmas in different stages. If say, the incubation stage determines whether the start-up project (starting enterprise) would survive, and the growth stage determines whether it can achieve health development, then the take-off stage determines whether the starting enterprise can maintain sustainable development. In Dream Town, the government is

not only the top-level system designer, but also plays the role of the waiter for purchasing or providing services. Via the operation model of “allowance + subsidy+ share option”, it provides a one-stop, full-range starting-up service for entrepreneurs and start-up projects, creating an incubation chain containing “germination stage+ blossom stage+ fruit stage”, which gradually manifests the characteristics of hierarchical governance, network governance and market governance with the evolvement of the starting project. As shown in Figure 2.



**Fig. 2** Government governance in the dynamic evolution process

In the incubation stage, the government as social manager, creates the “Dream Town operator + incubation platform + entrepreneurs” three-tier model of management and operation. Via full competition among incubation platforms, the co-existence, competition and cooperation between the small organizational entities and within a super-large organization have come into being, attracting the talents and starting projects. The actors all have a shared mission list and a clear value creation chain, and they discuss, create and finally reach an agreement on mutually acceptable and executable plans. After this, they distribute the resources separately constrained by the budget, saying financial allowance of ¥20,000 (\$3,000) for each, identify the potential entrepreneurs and arrange corresponding activities, including entrepreneurship guidance training and project pitch show. Then, they assist entrepreneurs in the polishing of business plans, empowering them and boosting their starting-up process. Finally, the effect of entrepreneurial incubation is verified from the feedback comprehensive quality of the project, through the process of entrepreneurs participating in various roadshow promotion hosted by government and investment institutions. Eventually, the closed-circuit cycle of "planning-organising-leading-controlling" under the power-based hierarchical governance pattern is completed.

In the growth stage, entrepreneurs and their entrepreneurial teams are highly engaged in the entrepreneurial ecosystem network constructed and managed by the government, and communicate with other participants to finish the procedures of problem verification, product verification, market verification, operation verification and expansion verification. The network management in this stage is saliently different from the hierarchy in the incubation stage. First, entrepreneurs and their team are the most important growing participants who equivalently interact with the members in the network. The government as manager and network participator clarifies the rules and objectives of the network and motivates the participation of the entrepreneurs. Second, eligible entrepreneurs are introduced and activated into the constructed network. Third, by properly guiding the start-up projects, government’s financial subsidy (depending on entrepreneurial project nature and performance) and social funding would be attracted to follow, who would reach formal or informal protocol or ally relationship with starting enterprises to promote the start-up project. Finally, with the joint participation of investors and the co-operation of the resources and networks, new knowledge of technology, market and business would be created and shared, forming a chain of “constructing-activating-mobilising-synergising” under the network governance pattern.

In the take-off stage, the start-ups begin to become the entrepreneurial actors in the market, and the organizational resources they own markedly increased while the demand for resources is much larger. The government inherits parallel

right originated from the subsidy in the early stage, and further provides guiding funds (if applicable), project platforms and financial services for start-ups at a larger and higher level, and also endorses the corresponding capital, talents, technology and management to support the development of starting enterprises. The agency of government, namely Zhejiang Jinkong, as the shareholder, assists in the determination of the optimal technology strategy and requirement of resource, analyses and promotes eligible starting enterprises to be listed on the regional capital market. They would also organize closed-door capital matchmaking, project exhibition of high density, high frequency and high quality, completing the trading and delivery in expected reasonable time range. Finally, Zhejiang Jinkong would also follow up and verify the results of the arrangement in the capital market and rectify the error in time, and withdraw from the equity (former share option) structure of starting enterprises when the expected objectives are achieved, completing the small cycle of "designing-promoting-executing-exiting" of market governance.

### 4.3 Dynamic Evolution of Government Governance

This section presents details of our findings, including the delineated stages of the entrepreneurial ecosystem, the dream town context and the role of government governance in each stage. The entrepreneurial ecosystem is a combination of both structured and unstructured process of entrepreneurship between participants and government contexts. The evidence reveals that the entrepreneurial ecosystem is dynamic progression with a management and operation loop from incubation, growth and take off period. Table 1 summarises the transitional governance patterns of the entrepreneurial ecosystem of Dream Town and different features of corresponding governance patterns.

**Table 1** Government governance in entrepreneurial ecosystem in three stages

Perspective	Incubation period	Growth period	Take-off period
	Hierarchical governance	Network governance	Market governance
<b>Operating Principle</b>	Power-based obedience	Reciprocity-trust cooperation	Price-exchange competition
<b>Legitimization</b>	Responsibility	Participation	Fairness
<b>Governance entities</b>	Government	Public and private multiple entities	Private market players
<b>Entrepreneurial Actors</b>	Entrepreneur	Entrepreneur and entrepreneurial project	Entrepreneur and start-ups
<b>Roles of Government</b>	Social manager	Manager and network participant	Manager and contract participant
<b>Resource allocation principles</b>	Budget constraint	Negotiation	Supply and demand balance

In different stages of the growth of start-ups in the entrepreneurial ecosystem, the government has adopted three forms of organization and resource allocation: hierarchy of section level, network and market. In the incubation period, on the basis of resource allocation ability, information acquisition ability and coordination and control ability, the government and its agencies play the role of social managers with budget constraint as resource allocation principle by administrative power. As entrepreneurial actors, the agent of government, incubators and entrepreneurs are placed in a distinct hierarchical system of subordination, which not only meets the objective needs of social mass production and complicated administrative management, but also obtains the cultural identity of the age of scientific rationality with its impersonal and institutionalized characteristics, so as to effectively gather human capital and realize "Top-down Control".

In the growth stage, the government builds an entrepreneurial network and encourages more high-quality resources and

heterogeneous institutions to enter, which is based on mutual trust among the government, the private sector and other various participants, and ensures cooperation through reciprocal intercourse. As not only the direct participants of the network, but also the external promoters of the network construction and the managers of the network governance, the government and its agencies promote the efficiency of network collaboration while improving the public value creation in the network. In essence, government act as managers and network participants who, on the basis of trust and cooperation, to build and manage the legitimacy of regional entrepreneurial ecosystems via participation, also allocate resources through mutual negotiation, with the aim of effectively creating products and market knowledge and improving the feasibility of entrepreneurial projects.

In the take-off period, the government and its agencies, as shareholders, use market governance to help start-ups grow, specifically, use market thinking and market mechanism to help start-ups obtain more organizational and network resources. At the moment price-exchange competition will form a private market entity to complete resource allocation and collective action in the economic field. On the basis of ensuring the legitimacy of fair transaction, the government adopts the method of market pricing, takes the balance between supply and demand as the principle of resource allocation, and aims to improve the utilization efficiency of these resources, so as to solve the problems of rigid organization and low operation efficiency in traditional governance in bureaucracy of section level. After the exiting of the government, private market entities, represented by start-ups and social capital, became important participants in the start-ups and ecosystem of entrepreneurship, and the government became the macro manager and contract participant of market governance. According to the situations corresponding to the above three governance patterns, we can find that they show obvious differences in the aspects of operating principle and roles of government role.

**Proposition 1.** *In the process of facilitating the growth of start-up companies, the government has played the role of social manager, manager and network participant, manager and contract participant, which corresponds to the three governance patterns: hierarchical governance, network governance and market governance.*

Furthermore, start-up companies have natural incompleteness in knowledge creation. The production processes of knowledge of technology, product and market require appropriate systems to ensure and regulate their connectivity at different stages. Appropriate institutional systems can stimulate, coordinate and reinforce the actions of members in knowledge creation, thereby enhancing the creation and dissemination of new knowledge. In an entrepreneurial ecosystem, public and private multiple entities interact with, and connect relevant knowledge creation on a government-built collaborative platform. These knowledges are the key parts of new product development, new technology application and new know-how of commercialization, including not only the stock of knowledge (analytical knowledge of scientific attributes) from each member, but also incremental knowledge (synthetic knowledge of engineering attributes). The synthetic knowledge of engineering attributes usually exists in the implicit form and doesn't have a lot of standardized and structured compact form, more difficult to rapidly spread between different groups and organizations. The discussion and communication among the main stakeholders in the relatively closed and normalized physical space make the above two kinds of knowledge interact dynamically. Meanwhile, due to the two forms of knowledge, explicit and implicit, explicit knowledge is very difficult to evaluate its real value and implicit knowledge is even impossible to evaluate its real value, so knowledge is difficult to be exchanged through market transactions.

**Proposition 2.** *Based on natural incompleteness and complexity of knowledge creation, and non-transparency of knowledge dealing of the start-ups, the government builds entrepreneurial ecosystem and manage knowledge community to form the knowledge creation and knowledge sharing under reciprocity-trust cooperation, which can effectively remedy the imbalance of knowledge creation led by the government solely or the failure of knowledge sharing led by the market solely.*

The government leads the entrepreneurial ecosystem construction such as the dream town and provides targeted and specialized incubation services in whole process for entrepreneurial enterprises and teams at different stages of development, so as to build a whole-process incubation chain of entrepreneurial nursery garden, incubator and accelerator, which is the practice of standard public affairs of cross-domain and cross-departmental collaboration in the social context and contains specific "Governance Principles, Methods and Tactics". As the resources necessary to



achieve collective action (including knowledge, capital, and organizational and coordination capabilities) are owned by decentralized and various public and private entities, they form interdependent, relatively stable, but dynamically changing network structures. Network participants form relatively stable joint action modes and consensus on cooperation norms through repeated contact. Meanwhile, network governance is a kind of informal governance with the features of network practices and spontaneity, repeatability and dependence on path, which plays the role of governance through inter-individual and inter-organizational relations & learning, especially through the guidance of social and collective relations established and managed by the government, deepening the close ties between entities through trust with mutual benefit so as to improve the overall operation efficiency of the network.

**Proposition 3.** *When the government constructs and activates the entrepreneurial ecosystem, on the one hand, it respects the relatively stable network practices and cooperation norms formed among participants through repeated exchanges, and on the other hand, it needs to actively shape the embedded social and collective relations through network governance to improve the operation performance of the network.*

## 5. DISCUSSION

The purpose of this study is to analyse how the entrepreneurial ecosystem of China is augmented by government governance. The operation mechanism and dynamic evolution of government governance is studied through an in-depth longitudinal case study, which shows the importance of entrepreneurial ecosystem while highlighting the government-led and market-dominated governance mechanism. The findings of the study are related to the issue of entrepreneurship in the China's entrepreneurial ecosystem by investigating how the Chinese government participation in entrepreneurial ecosystem (in our case: Dream Town) strive for increased healthy development in order to accelerate start-up companies' development, thus create innovation for competing on the global and domestic market. By taking a processual perspective, it delineates the dynamic evolution process and mechanism of government governance in the entrepreneurial ecosystem context. Specifically, we propose that the roles of government in entrepreneurial ecosystem are dynamically changing, involving manager, network participant and contract participant, each of three points corresponds to hierarchical governance, network governance and market governance.

While the importance of knowledge and recipients in entrepreneurial ecosystem have been mentioned in prior research, this study moves beyond this by linking the knowledge community and entrepreneurial ecosystem to various stages and the evolution of the government governance process. It demonstrates that government governance in entrepreneurial ecosystem are more than a knowledge communication tool and knowledge communication context. They affect the search for potential sources of knowledge, as well as the effective knowledge sharing mechanism of entrepreneurial ecosystem. Our findings enrich existing research on the process of entrepreneurial ecosystem by highlighting the key role of government in forming an effective knowledge sharing mechanism.

This study highlights the fact that the ecosystem of entrepreneurial is multi-dimensional and is subject to triple layers of governors and governors and participants cooperation norms. Governance should not be separated or be considered in isolation, as single management style alone does not guarantee an effective communication and stable collective relations. Network governance is the response to new relationship between government and entrepreneurial ecosystem. The establishment of the governance of entrepreneurial ecosystem would be lack of mutual trust and efficiency without considering these aspects simultaneously. Our findings indicate that network governance is quite important for successful government governance in entrepreneurial ecosystem.

### 5.1 Theoretical Implications

This study complements existing knowledge about government governance on entrepreneurial ecosystem in two distinct ways. First, from a theoretical perspective, as government governance is an externally focused perspective, this study supplements existing governance study by reveals the three different governance patterns of government and clears up the governance entities, roles of government, legitimization and the principle of resource allocation. Furthermore, this study systematically analyses and summarizes the differences and connections among hierarchical governance, network

governance and market governance in the context of the entrepreneurial ecosystem, and analyses the entrepreneurial actors and the operational principle and other related elements.

Second, our study advances institutional theory. this study takes a significant step toward eliminating this gap by reveal the dual mechanism between entrepreneurs and government, promote the evolution of the entrepreneurial ecosystem. On the general background of economic transition and development in China, this study explains how the government promote the development of start-up companies under the premise of overcoming system defects and ensuring legitimacy through marketing operation by its agencies.

## 5.2 Practical Implications

This research generates a number of takeaways for practitioners involved in the entrepreneurial ecosystem. The government should actively shift its role, foster the idea of service-oriented government, innovate governance way of entrepreneurial ecosystem, for refining the public service and creating a good environment for entrepreneurship, which ensure the entrepreneurial ecosystem health and effective operation. The healthy and effective ecosystem is likely to give rise to entrepreneurship flexibility, allowing entrepreneurs to make more independent decisions regarding operational activities, human capital strategies, technology strategies, product portfolio configurations, and division of labour, thus reducing costs.

From the entrepreneurial ecosystem policy perspective, it is essential to maintain the stability and continuity of policy for the entrepreneurial project of long periodicity. Furthermore, when constructing entrepreneurial ecosystem, it is the right development way that the government is in the leading position and market is in the dominancy. Thus, the agent of government should put mechanisms in place that ensure and enable the start-up company to build, integrate, reconfigure, and deploy organizational resources through its existing stock of human capital grows concurrently with the increasing demand for coordination of various resources, competencies, and capabilities.

Policy development needs to facilitate a start-up company's growth and secure a platform base of highly skilled labour in both innovation and services. The complexity of value-added within the entrepreneurial ecosystem calls for a combination of policies to take advantage of start-up companies within ecosystem. These structural preconditions can be facilitated by establishing technological innovation networks actively engaged regional development agencies at the intersection of entrepreneurial ecosystem and business incubators. Well-functioning networks are difficult to imitate and thus become a competitive advantage for the specific region.

## COMPETING INTERESTS

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