CROWD FUNDING IN CHINA: CHINESE MODEL OR MODEL OF CHINESE—BASED ON A MULTI-PERSPECTIVE VIEW

LIANG ZHAO
Ph.D Candidate
Amsterdam Business School, University of Amsterdam
Email: Lzhao2@uva.nl
P: +31 0616521243
AGENDA

- CF arrives to China – An example
- Research significance & relevance
- Research question
- Theoretical embedding
- Methodology
**THE CHALLENGE**

- Most research on CF is Western based (US, Europe), using Western social & economic theories which may not be applicable to the China for example:
  - Western economies and societies are **rule-based** systems supported by strong, mature institutional environment.
  - In general, when public rules, laws, state policies and regulations are transparent, fair and universally applied, and the state is able to enforce the rules impartially, we call it a rule-based system. (Li, Park and Li, 2003)
  - China is a **relation-based (Guanxi)** system with institutional void in which **Trust** is important, and its economy in now transition period (partly centrally planned – the 5-Year-Plans, and partly controlled capitalism)
  - When public rules are unfair, opaque, and the state is unable to enforce the rules impartially and people therefore tend to rely on personal relations to govern their interests, we call it relation-based system. (Li, Park and Li, 2003)
  - Does home / local bias in investment matter? (Villarroel & Onofre, 2013 Academy of Management Proceedings)

- Do we need to develop a **Theory of Chinese CF** or **Chinese Theory of CF**? Is there a difference? Is it the same? (Alon et al., 2011)
Theoretical perspective

Firstly, we will enrich the literature on Chinese crowd funding development. It takes all the cultural, social and economic perspectives which have impact on Chinese CF into consideration for an integrated and illustrative analysis.

Secondly, the research broadens the scope of crowd funding business model by adding Chinese characteristics into it and try to find a Chinese model to develop CF.

Practical perspective

The research result will be valuable as a reference/guideline for all Chinese CF participants (nascent entrepreneurs and CF platform organizers) and the public (potential funders). By meanwhile, Chinese crowd funding culture and entrepreneurial environment can also be developed in the process.
RESEARCH QUESTIONS

- How does Chinese CF develop in a relation-based society with (economic) transition settings, low-trust, particular cultural characteristics and institutional obstacles? Is it possible?

- Is there a distinctive Chinese CF Business Model which suits Chinese particularity? If so, what does it look like? What is the mechanism behind it?

- Is that model practical/useful? What kind of condition/environment/culture should be achieved? It is the mixture of the existed or something new?
THEORY EMBEDDING

- **Transition Economy**
  - Historically, western economics shifted from fiefdom first to bureaucracy and then to market, whereas China is now shifting from fiefdom to clan (Boisot, 1987).

- **Relation-based governance (Confucianism and Taoism)**
  - Chinese principles of doing business (Li, 2013)
  
  Relation-based governance strategy works better with weak institutions. For example: weak legal system and low system trust (Yang & Wang, 2011).
  
  When dealing with employees and business partners, Asian managers take priority of sentiment (Qing in Chinese), followed by reason (Li) and then law (Fa). Reason and law take place only after sentiment can no longer sustain the relationship. On the contrary, law often takes priority, followed by reason and sentiment in Western markets (Martin, 2007).
  
  The spirit of Taoism posits that people should seek the middle way but not the two extremes (yin-yang) for solving contradiction, and appreciate contradictions and changes in the business world (Yang & Sui, 2013).

- **Guanxi (Chinese particular networks)**
  - In the existing literature, guanxi has been identified as one of the most important success factors in doing business in China (Yueng and Tung, 1996).
  
  Guanxi is frequently referred as the Chinese version of relationship marketing or business networking (Simmons and Munch, 1996).
  
  Guanxi network improves efficiency by reducing the transaction costs (Lovett et al., 1999).
Public trust

Relation-based society tends to lack public because of the low-quality of public information infrastructure (Li et al., 2003).

Child (2001) provides a comprehensive review on the role of trust and divides trust into two categories by different bases, i.e., traditional (relation-based) and institutional (rule-based). He emphasized the importance of trust in a traditional society where the trust-level is low.

Institutional theory (see graph 1/Li, Park & Li, 2004)

(strong institutional support, laws, regulation ..)

Local, home bias in investment (Villarroel & Onofre, 2013 Academy of Management Proceedings) In investment modality (equity, loans, donation), and in high-risk investment
GRAPH 1

Average Governance Cost

Rule-based governance system

Relation-based governance system

Turning point

Extent of Market

Adopted from Shahe Li, 1999 (see Selected Bibliography)
METHODOLOGY

- Q1 + Qn

- Multiple theoretical study/Integration
  - Rule vs. relationship-based society; Institutional environment, Home, local bias in investment, Trust, Economy in transition, culture and norm …
  - New theory development?

- CF Data collection (Platforms, projects, funders)

- Case study (Platform, Entrepreneur, Donator)

- Interview (Platform, Entrepreneur, Donator)

- Questionnaire/Survey (Platform, Entrepreneur, Donator)
Any Questions ?
Thank you !