



*Citation for published version:*

Zhang, C, Tan, J & Tan, D 2016, 'Fit by adaptation or fit by founding? A comparative study of existing and new entrepreneurial cohorts in China', *Strategic Management Journal*, vol. 37, no. 5, pp. 911-931.  
<https://doi.org/10.1002/smj.2355>

*DOI:*

[10.1002/smj.2355](https://doi.org/10.1002/smj.2355)

*Publication date:*

2016

*Document Version*

Peer reviewed version

[Link to publication](#)

This is the peer reviewed version of the following article: Zhang, C, Tan, J & Tan, D 2015, 'Fit by adaptation or fit by founding? A comparative study of existing and new entrepreneurial cohorts in China' *Strategic Management Journal*, which has been published in final form at <http://doi.org/10.1002/smj.2355>. This article may be used for non-commercial purposes in accordance with Wiley Terms and Conditions for Self-Archiving.

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**FIT BY ADAPTATION OR FIT BY FOUNDING? A COMPARATIVE STUDY OF  
EXISTING AND NEW ENTREPRENEURIAL COHORTS IN CHINA**

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Short title: Fit by Adaptation or Fit by Founding?

Keywords: Existing and new ventures; entrepreneurial networks; institutional change; imprinting; transitional economies

**Acknowledgement:** We would like to thank the participants in the Workshops on Economic Sociology and Networks and Organizations at Stanford University in 2010. Special thanks to Guido Möllering, Tao Wang, Shanyang Zhao, Xueguang Zhou for their valuable comments on previous versions of this paper. The first author gratefully acknowledges financial support from Jacobs University. This research is in part supported by research grants from Social Science and Humanities Research Council of Canada and from National Science Foundation of China.

Forthcoming in *Strategic Management Journal*

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# **FIT BY ADAPTATION OR FIT BY FOUNDING? A COMPARATIVE STUDY OF EXISTING AND NEW ENTREPRENEURIAL COHORTS IN CHINA**

## **Abstract**

Extant research provides ambiguous views on the network adaptability of existing ventures and new ventures during environmental change. Applying an institutional perspective, this research aims to provide a clearer picture by comparing the adaptation and network configurations of existing vs new entrepreneurial cohorts during China's institutional change after 1992. The qualitative and quantitative analyses show that the existing cohort of entrepreneurs display network inertia, in that they largely maintain strong tie-based political and market networks; the new cohort instead demonstrate better adaptation by establishing fewer political networks but more weak and diverse market networks. This comparative research unpacks the institutional mechanisms underlying such differences, and serves as a ground for future investigations dealing with the strategic actions of different entrepreneurial cohorts that are largely neglected in previous studies.

## **INTRODUCTION**

Much research has highlighted the importance of networks to venture success (Ahuja, Soda, and Zaheer, 2012; Gulati and Nohria, 2000). Network ties aid in the acquisition of knowledge and resources and may also confer legitimacy to new ventures, which are in general disadvantaged in resources and legitimacy. In transitional economies like China, the very idea of entrepreneurial venturing had, for a long period of time, suffered from lack of legitimacy and disadvantaged access to resources. It was therefore important for entrepreneurs in the early period of reform to establish networks based on strong-ties to substitute for the weak regulative institutional support in early period (Xin and Pearce, 1996).

Like other strategies taken to enhance venture performance, however, the ways in which ventures leverage networks may exhibit inertia, even as changing environmental conditions call for different strategies (Koka, Madhavan, and Prescott, 2006). The organizational imprinting literature has shown in general that founders' formative experiences in specific organizational environments have lasting effects on their subsequent behaviors (Burton and Beckman, 2007; Phillips, 2005). In particular, the network imprinting literature suggests that initial network structures continue to have

lasting effects long after the conditions under which they were established have long since changed (Marquis, 2003). Research has documented the phenomenon of socialist imprinting in countries undergoing extensive and prolonged economic transition (Kriauciunas and Kale, 2006). Organizational practices and mentalities were slow to change, even as they grew out of fit with new environmental conditions. But while much is known about why and how entrepreneurs leveraged networks in the early stages of economic transition, little is known about whether and how entrepreneurs adapted their networks after the institutional conditions that motivated the formation of these networks had changed (Hitt *et al.*, 2004; Peng and Quan, 2009; Peng and Zhou, 2005).

We therefore investigate how pre-existing and new entrepreneurs construct and adapt their network configurations to fit the changing institutional environment. In particular, we focus on understanding the underlying processes and mechanisms that lead to differences in entrepreneurs' network configurations. We study two cohorts of entrepreneurs in Shanghai, a site of massive institutional change (Huang, 2008: 174). The first cohort founded their businesses at the beginning of China's market-oriented reform period, while the second founded their businesses after market-oriented reforms had been well-established. Both qualitative and quantitative analyses reveal evidence of network inertia within the early-stage cohort. Entrepreneurs that founded their businesses in the early stage of market reform were prone to adopting a network-deepening strategy, leading them to maintain political and market networks that were based on strong ties and lacked diversity. In contrast, entrepreneurs in the late-stage cohort tended to adopt a network-broadening strategy, establishing fewer political networks but more weak and diverse market networks.

Our study contributes to understanding how entrepreneurs construct and adapt network configurations to fit changing institutional environments (Peli, 2009). Our findings show that institutional conditions at founding affect entrepreneurs' network actions—i.e. how they create, use and develop ties (Jack, 2010)—and that these networking actions can exhibit inertia even after

institutional changes cause them to become maladaptive. Our study therefore extends recent research on the implications of network-deepening and network-broadening among entrepreneurs (e.g. Vissa, 2012) by showing how institutional conditions shape entrepreneurs' uses of these networking actions. This contributes, more generally, to understanding the processes and mechanisms through which changing environmental conditions affect the evolution of network configuration.

## **THEORETICAL BACKGROUND**

The organizational imprinting literature shows that experiences from past organizational environments continue to have lasting effects on subsequent organizational structure. For instance, Phillips (2005) finds that prior experience at parent firms leads founders to institute similar routines in their newly-founded law firms. Hallen (2008) shows that founders' pre-existing personal networks are converted to organizational ties at their newly-founded firms. McEvily and colleagues (2012) find that lawyers' early-career ties to mentors at other firms continue to enhance the growth of their current law firms. An implied consequence of imprinting is that organizational structures may continue to reflect environmental conditions of the past, even if organizations' environments have since changed. For instance, Marquis (2003) finds that corporations in older communities established before the advent of air travel continue to have more geographically-localized director networks, even long after travel time ceased to be a binding constraint.

The role of institutional imprinting is likely to be particularly important in the context of transition economies. Research on networks in transitional economies suggests that close networks established in early periods to cope with uncertainty can impede firms from exploring diverse new resources and opportunities. In particular, entrepreneurs and firms are thought to shift from strong to weak tie-based networks (Peng and Zhou, 2005), to establish fewer political ties but more market ties, and to diversify connections (Hitt *et al.*, 2004; Peng and Quan, 2009; Peng and Zhou, 2005).

However, this adaptation may be difficult for existing ventures and entrepreneurs because socialist imprinting inhibits their adaptation to new market conditions (Kogut and Zander, 2000; Kriauciunas and Kale, 2006), and strong interpersonal networks established to cope with difficulties during the socialist period still persist (Ledeneva, 1998; Sedaitis, 1998). Compared to entrepreneurs that founded their businesses in the early stages of transition, entrepreneurs that founded their businesses later may be less constrained by imprinting.

At the same time, however, new entrepreneurs may also be subject to the liability of newness (Stinchcombe, 1965) and lack the advantage of established networks. Research shows that, to increase their chances of survival, new organizations and firms tend to conform with long-lasting institutions (Dimaggio and Powell, 1983) and existing business community norms (Galaskiewicz and Wasserman, 1989), and emulate legitimated local templates (Marquis, 2003). In the Chinese context, the founders of new firms intensively establish *guanxi* (strong interpersonal relationships) with government officials and business partners (Li and Zhang, 2007) and also mimic existing routines and practices (e.g., affective interaction through wining and dining) of *guanxi* cultivation (Yang, 1994), despite the high financial and emotional cost.

In studying organizational renewal to the changing environment, Peli (2009) identifies two forms of population adjustment: incumbent organizations renew themselves and strategically adapt to the new environment, that is, fit by adaptation; new organization instead investigate whether they can align with the new conditions from their initiation, without referring to old social structures and enduring templates, that is, fit by founding. We extend this conceptual work to empirically examine how existing and new ventures adapt to the changing institutional conditions. Entrepreneurs in a transition economy face a tension between preserving the networks that have been survival-enhancing in the past and building new networks that provide broader exposure to newer market opportunities. This tension makes economic transition a unique context for studying the interplay

between imprinting by past environmental conditions and adaptation to new ones.

## **RESEARCH DESIGN AND METHODS**

### **Research setting**

As the ‘epitome’ of China’s socio–economic transition (Huang, 2008: 174), Shanghai offers a rich setting for studying how entrepreneurs that entered at different stages of institutional transition respond to the coexistence of traditional business culture (Chen and Chen, 2004; Luo, 2007) with new norms and values diffused during the period of transition toward a market economy (Peng, 2003). Although institutional change is incremental, it is possible to demarcate different phases to examine how firms and entrepreneurs adapt their strategies (Tan, 2007; Tan and Tan, 2005). Scholars mainly divide China’s market–oriented institutional change and entrepreneurship development into three stages: 1978–1991, 1992–2001, and 2002 to present (Tan, 2007; Tan and Tan, 2005; Tsui, Bian, and Cheng, 2006; Yang and Li, 2008). China began its initial reform in 1978, but the period from 1978 to 1991 was not optimal for comparison, because the hybrid nature of ownership during that period made it very difficult to identify private entrepreneurial behavior (Nee, 1992; Tan, 2002). Thus 1992–2001 (early stage of market–oriented transition) and 2002–present (deepening of market transitions) instead represent the two crucial phases of the development of Chinese private entrepreneurship. In 1992, Deng Xiaoping’s ‘southern tour’ reaffirmed policy support for the private economy. However, institutions remained weak (Xin and Pearce, 1996). In 2001 private entrepreneurs were admitted as members of the Communist Party of China, and China entered the World Trade Organization (Li and Yang, 2006; Tan, 2007; Tsui *et al.*, 2006; Yang and Li, 2008). Thereafter, institutions became relatively better established, more policies and measurements aimed at promoting business venturing were initiated. A review of the history of Shanghai’s institutional change and development of private entrepreneurship confirms this two–phase division (*Shanghai Private Economy Yearbook*, 2003, 2008).

## **Sample**

In their conceptual model, Romanelli and Tushman (1986) propose that to study strategic change during an environmental shift, sampling organizational population cohorts should be based on their entrance period. We therefore sample two entrepreneurial cohorts, defined by their founding period. Cohort A (CA) consists of entrepreneurs who started their business during 1992–2001 (P1), whereas Cohort B (CB) contains entrepreneurs who started the business during 2002–2009 (P2).

To control for age and stage variations (Hite and Hesterly, 2001), we selected respondents who started their businesses when they were between 20–35 years of age and whose firms had already undergone their emergent and growth stages (or at least early growth for CB). Following these criteria, we identified 33 respondents. They were all engaged in small- and medium-sized enterprises. The industrial involvement of the two entrepreneurial cohorts is congruent with the overall pattern of industrial development in Shanghai (*Shanghai Private Economy Yearbook* 2005).

## **Data collection**

We conducted this study during May–October 2009. No available longitudinal data describe the network configurations of different entrepreneurial cohorts over two decades, so we collected these data retrospectively. Marsden (1990) warns that retrospective data suffers a selection bias, in that recent and strong ties tend to be reported more prominently. We employed several interview techniques and triangulated the qualitative and quantitative data to minimize this bias. The semi-structured interviews began with open-ended questions designed to elicit information about respondents' venture history and their perceptions of the external environment. To yield more accurate information, we employed courtroom questioning and event-tracking interview techniques (Eisenhardt, 1989; Huber and Power, 1985). For example, we asked what problems and pressures the respondents confronted during the start of their venture, how they resolved them, and to whom (or to which organization) they turned for help. All respondents referred to their networks. We



followed up with questions about how they established their networks and to identify the characteristics of network configurations. The interview questions were slightly adapted for the two cohorts, such that for CA, we focused on whether and why they adapted their networks during periods of institutional change, whereas for CB, the interview questions focused more on the current institutional period. In short, network data collection was closely linked to two cohorts' specific business activities and the surrounding institutional environments.

After the semi-structured interviews, we collected quantitative data using a name-generator method (Burt, 1992), which generally is limited to the five most important connections. Burt and Ronchi (1994) find that using this method reduces retrospective inaccuracies. Additionally this method has been used in studying social network among Chinese entrepreneurs (Chen and Tan, 2009). Therefore, we asked the respondents (the egos) to list a maximum of five names of others (the alters) who helped their venture during the institutional change (for CA, P1 and P2; for CB, only P2). Then we asked for information about the frequency of their communication, emotional closeness, alters' backgrounds, and the type of help and its importance. These quantitative data facilitated a triangulation of the findings of the network configurations that emerged from the qualitative data and thus reduced the potential bias. The interviews were typically 90–120 minutes in length and were taped and transcribed verbatim. We followed up with calls to fill in some missing details. Excerpts of the interviews were translated from Chinese into English.

### **Data analysis**

We adopted a systematic, constant comparison strategy (Strauss and Corbin, 1998) and analyzed the qualitative data with Atlas.ti, a qualitative data analysis program. We embedded the quantitative data analysis into the three-step analysis process.

First, we combined thematic and open coding to identify categories and examine the ego-centered network data. Thematic coding offers a good focus on the research questions (Ayres,

2008). We categorized respondents' accounts of the environment into perceptions of regulative, cognitive, and normative institutions. We categorized three entrepreneurial processes (obtaining opportunities, accessing resources, and gaining legitimacy) to define how entrepreneurs construct their networks to achieve these goals. Through open coding, we identified codes, such as network dependence, network opportunities, network types, and so forth. During this step, differences between two cohorts' network configurations began to emerge. Using the data collected from the name-generator method, we conducted an ego-centered network analysis that further confirmed such differences.

Second, using axial coding to relate and contextualize the core categories, we re-assembled the qualitative data, related categories, and subcategories to derive richer and more precise explanations of the differences in the network configurations. To consolidate and systematically relate the categories, we constantly asked what, where, when, how, and why questions so that we could unpack the underlying institutional mechanisms.

Third, using inductively derived constructs, we integrated and built our theory. With this step, we discovered that the varying nature of the regulative institutional environment and relational norms had different meanings for the early cohort and new cohort. Experiencing traditional Chinese relational norms and inconsistent regulative institutional development made network adaptation difficult and even unnecessary for the early cohort. However, the new cohort could better sense the regulative institutional development and adapt to the new relational norms and thus constructed their networks in new ways. We revisited the data multiple times to check for internal logic and consistency until we achieved a close match between our data and theory.

### **Conceptualization and measurement**

We conceive of a network configuration as comprising three measures: network types, market network diversity, and tie strength.

*Network types.* The choice to use a particular network type in a particular institutional context reflects the degree of institutional uncertainty and level of resource munificence (Koka *et al.*, 2006; Ma and Cheng, 2010). We identified three types of networks: (1) social–cultural, which features connections with family members, relatives, friends, and classmates who share common socio–cultural backgrounds; (2) political, including connections with government officials and entities; and (3) market, which consists of connections with other market partners and entities.

*Tie strength.* With measures suggested by Burt (1992) and Marsden and Campbell (1984), we coded tie strength as ‘strong’ when respondents mentioned frequent contact and close emotional attachment and as ‘weak’ otherwise. The quantitative data included frequency ratings on a 1–5 scale, which ranges from ‘several times a week,’ to ‘once a year or even less.’ Finally, the closeness rating also used a five–point scale, which ranges from ‘very close,’ to ‘distant.’

*Market network diversity.* This measure describes how diverse the market networks are across different industries (Goerzen and Beamish, 2005). In our qualitative data, we coded ties concentrated within the same industry as homogeneous and those that spanned industry boundaries as diverse.

## **DIFFERENCES IN NETWORK CONFIGURATION BETWEEN ENTREPRENEURIAL COHORTS**

In this section, we provide evidence of the differences in the network configurations of the two cohorts. Then we uncover the underlying institutional mechanisms that lead to such differences. Tables 1 and 2 illustrate the network differences of the two cohorts, as we elaborate next.

### **CA: network configuration during P1**

For the cohort of entrepreneurs that entered in the early stage of economic reform, social–cultural networks with family, relatives, and friends provided vital help at the initial business stage. However, those cohesive and strongly attached ties were limited in their access to critical resources and opportunities. To acquire physical and financial resources, make deals, and find business

opportunities, a majority of the respondents cultivated political networks ( $N = 9$ ) and market networks ( $N = 12$ ). These latter connections were mainly (8 of 12) established with buyers, suppliers, and peers in the same industry, using homogeneous ties.

The data further reveal that respondents primarily established strong ties (see Table 1). They were often involved in social interactions (e.g., dining together, sending gifts, and visiting families) and developed emotional closeness to ‘strengthen the relationships’ with their political and market connections. During P1, the government controlled most critical resources, and officials had the power to allocate resources. Cultivating strong interpersonal relations with officials was a reliable way to establish strong ties. To reduce market uncertainties and transaction costs, as well as to gain privileged resources and opportunities, respondents formed strong ties with their market connections. As ZRQ pointed out, ‘I accumulated a deep friendship with them [market connections]. At least, they recognized me as a good friend.’

**[Insert Table 1 here]**

### **CA: network inertia during P2**

In P2, the importance of the social–cultural network decreased. Incumbent entrepreneurs ( $N = 9$ ) still reported the high presence of political networks. Among them, some ( $N = 6$ ) maintained their old political connections and some ( $N = 6$ ) built new connections. The market network increased in importance ( $N = 15$ ), though most ( $N = 11$ ) of CA’s market connections remained nested inside homogenous networks. Respondents did not take proactive actions to search for or form new connections with a more diverse pool of market entities. Instead, they largely relied on their old market connections to bridge potential businesses connections.

During P2, respondents still commonly established and maintained strong ties. For the great majority of respondents (8 of 9) with political connections, the ties were strong. Some ( $N = 3$ ) respondents maintained their old political connections and engaged in symbolic interactions even

though those connections were not beneficial. The majority (10 of 15) of the respondents' market networks featured strong ties. Telling examples included relational actions during tough times, such as during financial crises or market declines. These respondents expressed their willingness to endure hard times and overcome difficulties with their market ties. The 'difficult times' provided opportunities to test relational loyalties, and their market networks passed these tests because of their long-accumulated interpersonal trust during the institutional change.

### **CB: network configuration during P2**

As Table 2 shows, compared to CA, a similar number of CB respondents ( $N = 10$ ) used social-cultural networks, but alumni networks played a more important role than family members and relatives in pooling resources. Fewer ( $N = 6$ ) entrepreneurs established political networks, and half of those reported that the government voluntarily connected and supported their business. Furthermore, more respondents ( $N = 9$ ) reported that they did not need or attempt to establish political networks; because market resources and opportunities were more dynamic, they preferred to focus on strengthening their own capabilities and developing market networks.

In contrast to CA's strong and interpersonal networks, CB's networks are featured with weak and inter-organizational ties. For example, realizing that his peer-to-peer broadcasting business ran the risk of copyright infringement, YX actively participated in projects of government agencies and worked towards alignment with industrial regulations. For his firm, organizational cooperation provided a good opportunity to promote the firm's public image so that 'we can make bold changes and innovations.' The majority ( $N = 15$ ) of CB members established market networks in an open environment, exploring diverse partners such as consulting firms, financial institutions, industrial associations, and the media, and establishing weak ties with them, which were more flexible and useful for acquiring resources, exploring opportunities, and obtaining legitimacy.

**[Insert Table 2 here]**

### **Ego-centered network analysis**

In an ego-centered network analysis, we analyzed the total reported ties between entrepreneurs (egos) and their connections (alters). We illustrate the network configurations of the two cohorts with the ego-centered network visualization tool—Vennmaker, as shown in Figure 1. The analysis generally confirms the findings from the qualitative data. The first difference arises with regard to network type: For CA, the proportion of the social-cultural network decreased from P1 to P2 (from 20% to 10.6%), but the proportions of market and political networks remained relatively stable (from 53.3% to 61.7% and from 26.7% to 27.7%, respectively). In contrast, for CB, the market network (71.4%) significantly outweighed the social-cultural network (20%) and the political network (10.6%). In addition, for CA, almost half of the ties (22 of 47) during P2 were repeated ties, suggesting that CA to a great extent maintained old ties.

Second, CB tended to establish weaker ties than CA. We used three measures to compare tie strength: the mean of emotional closeness (C), the mean of frequency (F) (Burt, 1992; Marsden and Campbell, 1984), and the mean of combining closeness and frequency (FC) (Reagans, Zuckerman, and McEvily, 2004). For CA, a paired-sample *t*-test using three measures consistently showed that the difference between P1 and P2 was not statistically significant (e.g., for FC,  $t(13) = -1.01$ ,  $p = .33$ ), such that CA maintained strong ties. Furthermore, the tie strength of CB was weaker than that of CA during P2 (e.g., for FC CB  $M = 2.15$ ,  $SD = .50$ ; CA  $M = 1.88$ ,  $SD = .40$ ), though this difference was not significant. Finally, the difference between CB during P2 and CA during P1 was significant in the tests of FC and F (e.g., for FC CB (P2):  $M = 2.15$ ,  $SD = .50$ ; CA (P1):  $M = 1.77$ ,  $SD = .34$ ;  $t(28) = -2.43$ ,  $p = .02$ ). This finding confirmed that CB established weaker ties in the founding period.

Third, weak ties were more important for CB than CA. Adopting Gargiulo and Benassi's (2000) grouping strategy, we categorized all ego-alter ties as strong or weak ties, depending on the mean

FC value. Weak (strong) ties are identified when FC values are above (below) the mean FC ( $M = 1.93$ ). By comparing the importance of the alters' help ('very important' or 'important'), we examined the function of weak ties. The results showed that during P2, among the ties that provided 'very important' help, 56.5% belonged to weak ties for CB, compared with 46.4% and 37.5% for CA during P2 and P1, respectively. Thus, weak ties tended to be more important for CB than for CA.

**[Place Figure 1 about here]**

Overall, these results confirmed the findings of the qualitative analysis. An important point should be noted here though. Scholars generally use the name-generator method to examine personal networks. During our name-generator interviews, information on organizational networks emerged (especially from CB, because these respondents received more help from organizations than from individuals). Coding this information was challenging, because it was difficult to identify single individuals and measure their closeness. Therefore, we included this information in the qualitative data analysis, which may explain why the tie strength of CB was weaker than that of CA but not statistically significant. The qualitative and quantitative data validated each other and provided more accurate information about the network configurations of the two cohorts.

## **UNPACKING THE MECHANISMS OF DIFFERENT NETWORK CONFIGURATIONS**

Our qualitative and quantitative analyses show that the early cohort of entrepreneurs exhibited a greater degree of network inertia, maintaining their strong tie-based political and market networks. On the other hand, the new cohort of entrepreneurs instead established fewer political networks and more diverse, weak-tie based market networks. To explain these outcomes, we analyze the mechanisms by which the regulative institutions and relational norms at founding shape entrepreneurs' networking strategies and subsequent differences in network configurations. Tables 3 and 4 provide definitions and examples of each mechanism. Figures 2 and 3 depict these

mechanisms visually. The environment at founding shapes entrepreneurs' networking strategies through the effects of regulative institutions and relational norms. Different founding environments, in turn, yield different networking strategies. In the case of the early cohort, the founding environment contributed to a networking strategy characterized by network bonding and close coupling with traditional *guanxi*-based relational norms (Figure 2). In the case of the new cohort, the founding environment contributed to a networking strategy characterized by network releasing and decoupling from traditional *guanxi*-based relational norms (Figure 3). We discuss these mechanisms in more detail below.

**[Place Figure 2 and 3 about here]**

#### **Cohort A**

*Network bonding.* Regulative institutions mainly shape the degree of dependence on networks and the availability and openness of network resources. The common problems that CA respondents confronted during the founding period were as follows: 'policies were unstable and fluctuating,' 'discrimination against private enterprises,' 'difficult to enter the market without the help of acquaintances,' and so forth. The liability of newness was exacerbated for entrepreneurs operating in an unfavorable institutional environment with underdeveloped market conditions. This situation created strong dependence on networks and a limited choice of networking partners, because of inadequate resources and insufficient mobility in the market (table 3, mechanism 1). To reduce the uncertainties inherent in informal exchanges and avoid the risks of unwanted exposure, respondents tried to cultivate particularistic ties with government officials. After describing the difficulties in obtaining a bank loan, MM explained how he established such connection with an official to obtain one:

*At that time, no college students were doing business.... I told him that my parents were government officials as well. So he was a little bit relieved. And then he checked my background and found out that I had joined the party when I was in college, and that I had*



*been a student leader back then. This also increased his personal trust in me. After we became familiar with each other, the loan was approved.... There was no requirement of montage.*

Institutional uncertainty and inadequate market resource flows also bonded the respondents with their market connections (table 3, mechanism 2). To obtain critical resources and opportunities, respondents resorted to existing ties. Previous interactions with old business partners fostered trust and commitment, and when the respondents started their own businesses, the old ties provided timely help.

Although forming ties with new partners can facilitate access to new resources and business opportunities, it requires much more effort. The CA members sought to deepen the relations to foster trust and commitment, as a relational bond to buffer against an uncertain environment and opportunistic behavior. An early IT services start-up, DHC confronted difficulties obtaining IT devices. Thus, he established strong ties with powerful market intermediaries who were engaged in overseas imports:

*If you didn't follow them to get the goods, your enterprise couldn't survive. However, in this manner, you faced high potential risks, such as smuggling. Under such conditions, establishing and maintaining guanxi was very important.... So I sent them some gifts and invited them to dinner so as to establish a closeness.*

*Close coupling with traditional guanxi practices.* An early unfavorable institutional environment bonded the early entrepreneurs with their specific ties and they deepened the ties to cultivate trust and commitment. In addition, this bonding relationship was consolidated by the relational pressures imposed by traditional *guanxi* practices. Most CA respondents (11 of 16) did not move in a more strategic direction; instead, they emphasized building and maintaining harmonious relationships and improving the quality of their existing ties. Their networking actions remained closely coupled with traditional *guanxi* routines, practices, and scripts. Respondents often deepened the relations through expressive interactions and social events, such as wining and dining. This echoes the idea that *guanxi*

building and consolidating involves mixing expressive interactions and instrumental ends (Chen and Chen, 2004; Hwang, 1987). In these conditions, actors need to insure an intricate balance to avoid incurring disapproval for being too instrumental. Doing business was a process of making friends that involved certain routines and etiquettes. As CFB described that, ‘After the meal, the order was naturally approved.’

Respondents also attached great importance to the accumulation of long-term relationships and nurturing mutual understanding, reciprocity, obligation, and assurance for continuous exchanges. As MM stated:

*I want to get myself accepted by them. When we are together, I show them my sincerity. After a long time, personal guanxi is well nurtured. And there might be many opportunities. These opportunities might not be related to business. You can't be too instrumental because it is a long-term process.*

Subtle, informal relational norms and rules were established in specific exchange relationships. During P2, respondents conformed to these rules to secure trust and avoid disapproval from their old ties. For example, FPX was still doing business with a third party through an intermediary and never ‘crossed the line’ to connect with the business. He explained:

*I follow the rules of the game, I entered the market by this channel [a referral], I won't break it ... if you break it, you are not on the right track. Why would I do that just for some money?*

The data in Table 1 and 2 show that obtaining resources and discovering opportunities were the primary entrepreneurial processes during P1 and P2. Close coupling with traditional *guanxi* practices ensures commitment and facilitates access to resources and opportunities. However, it creates an imprinting effect that impedes adaptation to changing conditions. With these strong, pervasive relational pressures, deviant behavior can provoke strong disapproval, as DHC noted with regard to his unsuccessful attempt to operate his business without following intricate *guanxi* practices:

*Actually, one year ago I tried with a friend to operate a business based on a new model, hoping that we could break away from the guanxi practice and we could run the business according to the market. However, after actual practice, we found that it didn't work. The*

*business still relied on guanxi.... If you don't act in that way, it seems there is no way out. Maybe there is a way out, but not everyone can find it.*

We assessed the data to determine if new relational norms and schemas were diffused and equally perceived by the two cohorts during P2. The results instead showed that the new institutional environment offered different meanings for the two cohorts. Although CA members shared the feeling that ‘market competition is intensifying’ and that they need to ‘enhance their internal strength and market capabilities,’ these pressures did not necessarily motivate them to dissolve their old ties or forge new, diverse, weak ties. Being embedded in homogenous and cohesive networks restricted their awareness of the external institutional change and constrained their adaptation to the changing environment.

**[Insert Table 3 here]**

*Experiencing inconsistent regulative institutional development.* The prevailing theoretical explanation of network change is that during the institutional change in transitional economies, regulative institutions are improved and this improvement leads to network decline or strategizing (Guthrie, 1998; Hitt *et al.*, 2004; Peng, 2003; Peng and Quan, 2009; Peng and Zhou, 2005). However, the environment is not purely exogenous and actors’ response is mediated by their experience and interpretation (Kaplan, 2011; Lawrence, Lorsch, and Garrison, 1967). CA’s evaluation of institutional change did not indicate a consistent picture that regulative institutions in P2 had become significantly more favorable than P1. Many respondents complained that during P2, ‘policies are constantly changing’ and ‘there are more regulations and restrictions.’ The early experience and unpleasant institutional journey reinforced their perceptions of uncertainty and amplified their emphasis on strong ties with officials as a way to protect themselves against uncertainties.

Respondents also noted that during institutional change, market institutions and mechanisms were developing, accompanied by intensifying competition and uncertainties. The informal market connections still provided some reliability and predictability in business exchanges. When

confronted with environmental turbulence and business challenges, the respondents remained close and endured the challenges together. Some respondents even realized that their businesses were stagnating or declining, but they remained with their old ties and continued existing business collaborations. They did not attempt to search for and form new ties with buyers, suppliers, and customers who they did not know before but may potentially offer new business resources and opportunities. As ZRQ remarked:

*If there is an opportunity [to find new partners], I will probably try, but I won't try very hard to do that.... I feel very comfortable doing business with my old partners. There aren't so many conflicts. After all, we know each other very well.*

For most CA members, maintaining and establishing interpersonal networks was still a favorable option, and it became an anchored, consistently reused coping strategy during periods of institutional change.

### **Cohort B**

*Network releasing.* Compared with CA's unpleasant institutional journey, the exposure to relatively favorable regulative institutions moderated CB's dependence on networks and increased the opportunities for networking (table 4, mechanisms 1-3). Thus CB's general perceptions included the following: 'regulations are relaxed,' 'more supportive policies,' and 'less bureaucracy and more efficiency.' Beginning in 1998, the Chinese government accelerated its market economy and launched reform measures to improve bureaucratic capacity (Pearson, 2007). The resources and opportunities controlled and distributed by the government were gradually diminished. Meanwhile, the Shanghai government started providing more support to new ventures. These reforms and policy supports had a selective effect: the new entrepreneurial cohort enjoyed more benefits than the pre-existing one. Technology-related entrepreneurs reported that government agencies were directly involved in pooling funds, channeling resources, and providing administrative support. Others were actively connected by the government to boost the local economy. For example, JXJ explained how

his venture was supported by government agencies:

*There are many [supports]. The local government and the center for the transformation of high-tech production. They are constantly helping us. I will move to a new office soon. This office is offered by the Yangpu Start-up Center.... It even found some projects and came to support me.... The college students' innovation funds, technology venture capital, various start-up centers, etc. are all well connected and supportive.*

The development of market institutions and mechanisms also increased the volume and speed of resource flows, providing CB respondents with an open networking environment. Respondents clearly perceived competition, but they regarded it as a natural process for business ventures and tried to leverage their resources and opportunities, including external funding, talent, knowledge, and joint projects, with diverse market connections. Many respondents searched for and identified their new network partners by spotting complementary needs and then contacting them with a 'cold call.' The open networking environment encouraged resource sharing and fast network bridging. Respondents were connected to third parties through their network partners, with whom they accessed and exchanged resources and information. As WB explained:

*When I know some other companies are providing personal financial services, I call them directly. They also have such needs, so they won't refuse me if I go after them.... It is a very equal relationship.*

**[Insert Table 4 here]**

*Decoupling from or loose coupling with traditional guanxi practices.* The sharp contrasts in the two cohorts' network configurations call for a close investigation of the relational norms: Are the two cohorts subject to different relational norms, even during the same institutional period (P2)? The data show that when networking, CB members tended to decouple from the traditional *guanxi* practices. They perceived the routines, scripts, and schemas ingrained in *guanxi* building to be complicated, costly, and inefficient. Thus CB members were less engaged in social expressive interactions than CA members, but they were more engaged in task-oriented interactions. Many business and joint projects were negotiated and established within their offices. In this sense, ZAM

described problems with traditional *guanxi* practices:

*Many things important in Chinese business traditions, such as tactics, mianzi, and guanxi are not meaningful. How to build and how to manipulate are too complicated. I would prefer transparent market operations and cooperation based on trust.*

New entrepreneurs also decoupled from the traditional *guanxi* norms and values by avoiding mixing business relationships with friendship and attaching less affective elements. As ZQ remarked: ‘Very few business relations can be transformed into friendships.’ YYB noted that he repositioned his relationship with a previous friend and decided to cooperate with the latter only after he had identified the economic benefits from the cooperation.

Loose coupling became a key strategy when respondents perceived traditional relational pressure but did not want to follow them. For example, NXD allowed his subordinate to build interpersonal relationships with government officials, while he focused on enhancing the firm’s competence and developing a strategic alliance with international partners. Loose coupling generates flexible roles, secures appropriateness, and facilitates efficiency.

*Coupling with new relational norms.* The acceleration of marketization and integration of Shanghai into the global economy facilitated the diffusion of new norms for networking and cooperation. The need to strengthen market capabilities and competencies became dominant beliefs and values internalized by CB members when they entered the market. Emphasizing business innovation and value creation were the primary ways to form ties. For example, YMP offered elite education courses for ‘smart kids’ at a very high price. He attracted market partners by differentiating his business from others’ and stressing the additional values his firm could bring to the customers.

Obtaining organizational legitimacy is an important entrepreneurial process for new start-ups (Table 2). For example, YYB began his catering business in a traditional industry, but in comparing his practice with those of his industrial peers, he asserted that participating in a well-known national television program would be a more effective way to promote the business:

*I don't rely on interpersonal guanxi networks because they are limited. Today, more and more people get to know your business via websites and media. This is why I value the media; it plays an important role in networking. I think in this new era, one needs some breakthrough thinking.*

CB respondents tried to establish networks with prominent and powerful players to signal that they abided by social and institutional expectations. Once they established strategic alliances with powerful players, new start-ups could use their relational legitimacy to attract potential partners and expand their networks. For example, ZQ strategically allied with a high-status firm and invited the director to become a partner. After this alliance, ZQ found it was very easy to obtain financial support from banks. This coupling of new relational norms was well summarized by YZD:

*Obviously, Shanghai has become a center where business rules have become more and more international; now you have to flow with the rules of the game. In establishing a network, our own capabilities are very important. I try to be selective in establishing ties because we must match resources; time and energy are limited, and one needs to find the right partners.*

As these new norms, values, and beliefs became internalized, CB members viewed environmental shocks as a chance to reflect and strengthen firm competence, and viewed it more neutrally and objectively, detaching it from personal relationships. The firms in which ZAM's company had invested lost value during the crisis; some of the early investors withdrew capital from his firm. Confronting these downturns and tie dissolutions, he remarked:

*Every crisis is a process of baptizing. After the crisis, the firms that remain in the market are the good firms. The market has baptized them. We feel reassured when we choose such firms.*

This analysis suggests that the new scripts, schemas, and norms were not equally perceived by the two cohorts. In contrast with CA's response, CB members perceived needs to enhance their market capability, engage in instrumental interactions, and broaden and strategize their networks.

## **DISCUSSION AND CONCLUSION**

This study examines the adaptive responses of two cohorts of entrepreneurs that founded their businesses at two different stages of China's institutional transition. Despite scattered insights from

the existing literature, the question of how early and late entrants adapt to the changing institutional environment remains ambiguous. Building on Romanelli and Tushman (1986)'s conceptual framework for studying organizations' adaption to the changing environment, we employ a comparative entrepreneurial cohort approach to investigate entrepreneurs' network adaptation during China's market-oriented institutional change since 1992. Both qualitative and quantitative data confirm the distinctive network configurations between the early and late cohorts.

We find that the cohort founded in the early stage of institutional reform exhibits a great degree of network inertia, whereas the recently founded cohort exhibits more adaptation to the new institutional environment. Exposure to unfavorable regulative institutions required early entrepreneurs to establish strong interpersonal trust to reduce transaction cost and risks. This effect was reinforced when they confronted deep-entrenched *guanxi* practices that emphasize emotional closeness, strong commitment, and long-term orientation. This network-deepening orientation imprinted by early founding institutional conditions created a strong tendency toward network inertia and made the early cohort's adaptation difficult. However, when a later cohort of entrepreneurs entered the market during the new institutional period, they enact "fit by founding" (Peli, 2009). The more favorable regulative institutions, along with new relational norms, values, and beliefs, contributed to network-broadening. New entrepreneurs proactively developed new and diverse market connections. They tended to distance themselves from conventional ways of networking, but emphasized creating business value for partners and used relational legitimacy to attract and expand their networks, leading to a distinctive network configuration.

### **Implications**

An implication of our findings is that within in the same institutional period, different cohorts of entrepreneurs may cope differently with current regulative institutions and relational norms as a result of their different founding conditions. Prior research on imprinting has found that newly



established firms emulate the template of firms established in earlier eras with different environmental conditions (Marquis, 2003). We extend this research by showing that entrepreneurs may exhibit two different responses to environmental change. Entrepreneurs from the early stage of institutional transition tend towards network deepening, which acts to preserve the network structures of the past, while entrepreneurs from the late stage of transition tend towards network broadening, which contribute to changes in network structure. Our findings speak to recent questions about how organizations “confront incompatible prescriptions from multiple institutional logics” (Greenwood *et al.*, 2011: 318) and how organizations respond to this complexity (Marquis and Tilcsik, 2013). Entrepreneurs in changing environments are likely to experience the coexistence of multiple incompatible logics (e.g., inconsistent regulative institutional development, traditional versus new relational norms) during institutional transition. Our findings suggest that imprinting from different founding conditions may help to explain differences in how entrepreneurs cope with competing institutional logics.

An empirical contribution of our study is documenting different trends in network configuration between different cohorts of entrepreneurs in China. Previous research has shown that Chinese firms and entrepreneurs, including new entrants, actively cultivate *guanxi* with government officials (Li and Zhang, 2007). We find that compared to entrepreneurs that started earlier, more recent entrepreneurs establish fewer political networks, and the direction has shifted from primarily attempting to network with government officials to managing networking behavior from government officials. We also find cohort differences in the structure of market networks. Scholars have suggested that as the institutional environment in China changes, firms and entrepreneurs should be expected to transform their strong tie-based networks into weak tie-based ones and diversify their connections (Peng and Quan, 2009; Peng and Zhou, 2005; Tan, Yang and Veliyath, 2009). Our findings show, however, that recent entrepreneurs are more likely to make such shifts in

their networking strategies than entrepreneurs that started in the early stages of transition. Our study therefore speaks to the literature regarding whether closed networks would move toward more open network exchanges in transitional economies (Cook, Rice, and Gerbasi, 2004). Taking China as the research site, Marquis and Qian (2014) show that because of the ‘socialist imprint,’ old firms are less likely than younger firms to pursue recent trends and management ideas around corporate social responsibility. We similarly find that the legacy of early socialist imprinting (Kogut and Zander, 2000; Kriauciunas and Kale, 2006), together with traditional *guanxi* norms, seem to confine strategic adaptation. Our findings therefore suggest that strategic adaptation in transitional economies is more likely to occur through the succession of organizational and entrepreneurial cohorts than by adaption among incumbents.

Finally, our study offers insights more broadly for the understanding of networks and entrepreneurship. Entrepreneurs face the need for legitimacy and access to resources and opportunities. Indeed, our findings show that entrepreneurship in the early stages of China’s transition—when the need for resources and opportunities was highest—was facilitated by strong interpersonal ties. But while valuable for establishing interpersonal trust, *guanxi* is nevertheless by its very nature ill-suited for transferring resources beyond close interpersonal ties (Chen and Chen, 2009). Research has therefore argued that entrepreneurs in transition economies are likely to benefit from going beyond particularistic ties to develop new business connections (Peng, 2004; Tan, Yang and Veliyath, 2009). As access to diverse information and entities becomes more important, close *guanxi* networks are likely to become constraints. Our study contributes to prior observations about negative externalities of close *guanxi* networks (Chen and Chen, 2009) by showing that entrepreneurs do not passively suffer the constraints of their past network structures but reinforce these effects through their own network-deepening actions. We also show that this behavior can be traced to imprinting from entrepreneurs’ founding environments. These findings contribute to

understanding the mechanisms by which networks can facilitate or constrain entrepreneurship.

### **Further research**

Our study suggests several fruitful directions of future research. First, since our study mainly focuses on processes and mechanisms of how the institutional environment shapes networking actions and network configurations, we did not explicitly include quantitative performance measures. Future research could examine how certain network configurations might be beneficial or detrimental for firm performance. Although extant literature has shown that network inertia constrains firms and entrepreneurs from developing new diverse ties and negatively affecting performance (Gargiulo and Benassi, 2000; Koka and Prescott, 2008), we suggest that the impact on performance might be contingent on founding conditions and venture stage. Second, given that longitudinal data on networks for a period of more than two decades are difficult to obtain, we collected retrospective data in this study. We took certain measures to ensure accuracy, including rigorous interview techniques and triangulating using qualitative and quantitative data. Yet, our findings should be interpreted with caution since a retrospective bias still may exist. This study provides grounds for future validation when new and better data become available. Similarly, future research may draw from alternative methods such as simulation to overcome data limitation and reveal the changes over time (Tan, Zhang and Wang, in press). Finally, we examined only networks of the new entrepreneurial cohort during the contemporary institutional period. Future research could examine how the networks of the new cohort evolve over time, especially how individual firm level networking strategies interact and co-evolve with network level characteristics during the economics transition (Tan, Zhang and Wang, in press; Tan and Tan, 2005).

### **Conclusion**

This study represents an early effort to examine the adaptive responses of two entrepreneurial cohorts during the course of China's institutional transition. The qualitative and quantitative analyses

show that the cohort that entered during the early stage of transition exhibited a greater degree of network inertia, whereas the new cohort exhibited quick adaptation to the new institutional environment and a distinctive network configuration. By unpacking the underlying institutional mechanism, this article enriches our understanding of how interests and agency are shaped and reshaped when actors confront multiple institutional logics. By raising new questions, we hope this study will serve as a ground for future investigations dealing with the strategic actions of different entrepreneurial and organizational cohorts that are largely neglected in previous studies.

### ACKNOWLEDGEMENT

We would like to thank the participants in the Workshops on Economic Sociology and Networks and Organizations at Stanford University in 2010. Special thanks to Guido Möllering, Tao Wang, Shanyang Zhao, Xueguang Zhou for their valuable comments on previous versions of this paper. The first author gratefully acknowledges financial support from Jacobs University. This research is in part supported by research grants from Social Science and Humanities Research Council of Canada and from National Science Foundation of China.

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Table 1. Cohort A: network configuration during the period of institutional change (P1 and P2)

Core codes	Evidence <sup>a</sup> (P1)	Examples <sup>a</sup> (P1)	Evidence <sup>a</sup> (P2)	Examples <sup>a</sup> (P2)
<b>Obtaining resources</b> Political/ Market/ Social cultural	6/6/7	At the beginning, the bank loan was very difficult to get. So I borrowed the money from relatives....I worked in the government for three years. They [officials] thought I was young, very hardworking and close to them....So they gave the printing department to me, and then I started up my business. (CCL)	5/5/3	You need to actively contact the government and leaders, letting them know what you are doing. Then you could get their support, such as policy, business and financial support. (YJ)
<b>Discovering opportunity</b> Political/ Market/ Social cultural	6/7/3	At that time, I tried to help many people and solve their technical problems. I didn't ask for any rewards. But they gave me the orders once they had the business. Actually, this was how I developed this market model. (ZRQ)	7/14/3	Market development is mainly based on the previous model: for example, the previous accumulated customers and guanxi. I also asked them to recommend some new customers. Business becomes easier and faster in this way because we know each other relatively well. (DHC)
<b>Gaining legitimacy</b> Political/ Market/ Social cultural	2/2/0	When you do the things the government encourages you to do, it will give you certain support...Sometimes, government [officials] are very busy and they can't take care of you. In such a case, you need to actively contact them. Let them know what you are doing. (YJ)	3/2/0	Many government officials want to visit our firm. The deputy major visited us last year. It's zero-cost advertisement. The government needs to investigate the situation [of firms], and they need to find good models. (XJF)
<b>Political network</b> Strong/weak <sup>b</sup>	9 9/2 <sup>c</sup>	When I worked in a State-owned enterprise, I tried my best to become familiar with the people from the government. It was helpful for mutual understanding. When I started up my own business, they gave the business to me. (HDS)	9 8/2 <sup>c</sup>	Because we have emotional exchanges, our personal relationship is built very well. Many things have been mixed together; and we stay in contact very frequently. (CFB)
<b>Market network</b> Strong/weak <sup>b</sup>	12 9/4 <sup>c</sup>	I heavily relied on friends, they are relatively reliable.... I always invited them to have meal at my home...I am very grateful for their help. (WM)	15 10/6 <sup>c</sup>	After long term, it becomes friendship. Business just needs a simple call....I think I can develop guanxi in any environment. Having a chat over tee and cherishing the kindred spirit. The business will come naturally. This seems very important in China. (HDS)
Homogeneous/diverse <sup>b</sup>	8/4	At that time, I had very good relationships with industrial peers. We dined together and talked about the business....I relied on them. Actually, the circle was not big. (XJF)	11/4	There are some professional training companies, offering consulting in sales and organizational behaviors....However, our company is small. To be honest, we can't afford it. So we grope about and exchange with industrial peers. We share the same problems and they too also don't know how to deal with them. (DHC)
<b>Social-cultural network</b> Strong <sup>b</sup>	10	I recruited two people [in my team]. One was recommended by a friend. I post the information in the job market, but I thought friend's recommendation was more suitable. Another recruit was my brother colleague. He was our hometown fellow and we already knew each. (DHC)	6	At the beginning, my wife and relatives also worked in the firm. In the later stage, I asked them don't work here anymore. We disagree on something. (ZRQ)

<sup>a</sup> The figure indicates the number of interviews (out of 16) in which the interviewee indicated the coding themes. Examples are illustrated for the main pattern in each theme. For example, in 'obtaining resources,' we provide the example of social-cultural networks because 7 respondents noted this pattern.

<sup>b</sup> Referring to the measures of *tie strength* (Marsden and Campbell, 1984), we coded them as strong when respondents mentioned frequent contact and emotional closeness and weak otherwise. *Diversity* describes how diverse the market networks were (i.e., number of unique partners) across different industries (Goerzen and Beamish, 2005). We coded ties concentrated within same industry as homogeneous and diverse otherwise.

<sup>c</sup> The sum of the ties exceeding the number of interviewees noted in the coding theme indicates a mix of strong and weak ties.

Table 2. Cohort B: network configurations in the contemporary institutional period (P2)

P2: Core codes	Evidence <sup>a</sup>	Examples <sup>a</sup>
<b>Obtaining resources</b> Political/ Market/ Social cultural	7/12/8	Our firm is a technology supplier. We cooperate with consulting firms. They offer some advices, such as marketing strategies. We also go directly to the potential customers and know their demands. So we can improve our technologies. (QCH)
<b>Discovering opportunity</b> Political/ Market/ Social cultural	2/13/2	To develop the project, one approach is through our own research, or through our own partners' network. Another approach is through the professional agencies. Local governments also actively introduce some projects. Or through the industrial symposia. There are many ways. (ZAM)
<b>Gaining legitimacy</b> Political/ Market/ Social cultural	3/6/1	I think the business model and market is not mature. I want to improve the market acceptance. So I went to IT firms and high-tech firms because there are many singles...I also collected and integrated the resources: people and gatherings. For example, cooperating with Baihe. net and other firms and opening a salon in Jinmao Tower, letting people know the marriage consulting service. (HDT)
<b>Political network</b> Strong/weak <sup>b</sup>	6 2/4	It's very difficult to obtain the land in Shanghai. It took us two years to study the market situation and we didn't make any contact with government. We just did it through the market and we got the land via bidding. After that, we communicate with the local government. They were surprised....We didn't get close to the government. I think it is the proper work relationship with the government. (ZQ)
<b>Market network</b> Strong/weak <sup>b</sup>	17 6/15 <sup>c</sup>	Just as the cooperation with Beihe.net. From the beginning, we don't have any contact. But I think we can work together. So I made a cold call to ask if they also had such an intention. Then I visited their firm and discussed the business project. (WY).
Homogeneous/diverse <sup>b</sup>	2/15	Start-ups must manage four things: technology, capital, talents, and the market. You can't stay in your circle, you must jump out to find those things....Those things are out there, they are not scarce. You need to deal with different persons, being active and selective, you will find those resource and opportunities.(YX)
<b>Social-cultural network</b> Strong <sup>b</sup>	10	I co-started up with a former colleague, a classmate from MBA school. I think our team is very stable because of our firm friendship. (DHY)

<sup>a</sup> The figure indicates the number of interviews (of 17) in which the interviewee indicated the coding themes. Examples are illustrated for the main pattern in each theme.

<sup>b</sup> We coded respondents who mentioned frequent contact and emotional closeness as strong and others as weak. We coded ties as homogeneous if they were concentrated within the same industry and diverse otherwise.

<sup>c</sup> The sum of the ties exceeding the number of interviewees mentioned in the coding theme indicates the mix of strong and weak ties.



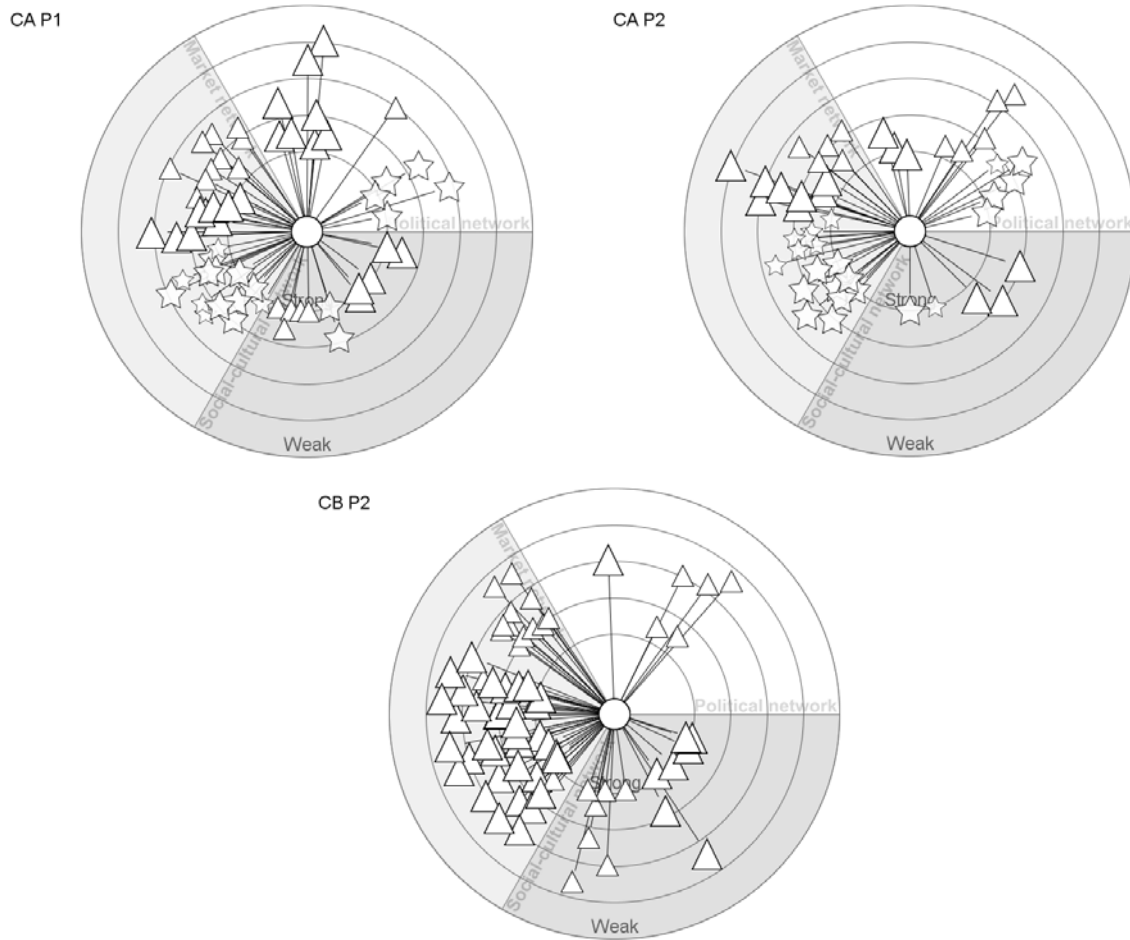


Figure 1. Comparisons of the Ego-centered networks of two entrepreneurial Cohorts <sup>ab</sup>

<sup>a</sup> In ego-centered network analysis, tie strength is measured by the mean of the product of the frequency of communication and emotional closeness (FC) (Reagans *et al.*, 2004). Frequency is rated on a scale of “several times a week,” “several times a month,” “several times a quarter,” “several times a year,” and “once a year or even less” (1–5). Closeness is rated on a scale of “very close,” “close,” “so-so,” “not so close,” and “distant” (1–5) (Burt, 1992: 125; Marsden and Campbell, 1984). Five circles (outward) indicate the tie strength from 1–5.

<sup>b</sup> CA:  $N=14$ , total reported ties: CA (P1)=60, CA (P2)=47. CB:  $N=16$ , total reported ties CB (P2)=70.  $\triangle$  represents alter,  $\star$  represents repeated alter in both institutional periods. Large size indicates that help is “very important,” small size indicates that help is “important.”

Table 3. Not fit by adaptation: the underlying mechanisms of network inertia of Cohort A

Mechanisms	Evidence	Examples
1. The weak regulative institutional support and underdeveloped state of the market create start-ups' strong dependence on network.	12	In the early stage [before 2002], all electronic products were imported from abroad, mainly via gray channel like intermediaries.... If you didn't work in this way, you couldn't survive. In our IT circle, everybody knew it. You can say it was an open secret or an unspoken rule; you had no choice, but that was the situations. (DHC)
2. The weak regulative institutional support and underdeveloped state of market limit the network opportunities and bond the start-ups to certain ties.	11	He gave me the [government]projects because he trusted me. He would have worried if he gave them to anyone else...I manage my business within a controllable scope: it is relatively small and there are no problems. If I want to develop, there will be a problem. (HDS) The bosses from those companies were very brave. Actually they all had some backgrounds and they could solve the problems [import limitation]. However, I could not because I had no background and no resources. So I had to obtain the goods from them. (DHC)
3. Close coupling with traditional <i>guanxi</i> practices confines network adaptation.	9	Under China's macro conditions, business relies on <i>guanxi</i> . As a start-up, if you don't develop your <i>guanxi</i> , you might be thought of as incapable of doing so. This applies to everyone. <i>Guanxi</i> requires long-term cultivation. (HDS) I show my enthusiasm and honesty and that I could do solid work. I have some clients who initially were not familiar with me. Eventually, they accepted me and trusted me. Slowly I developed <i>guanxi</i> ....Actually, there is old Chinese saying: spur with long accumulation. Only by steady accumulation will people trust you.(DHC)
4. Experiencing inconsistent regulative institutional development anchors <i>guanxi</i> network as a coping strategy during the institutional change.	10	[After 2002] The policies became much tighter: for example, customs, taxes and the administration etc. From the perspective of the state, they became more standardized; however, the business became more difficult....Many things are parasitic appendages of the state system. If you still have old <i>guanxi</i> networks, they can still help you sometimes. (DHC)

<sup>a</sup> The figure indicates the number of interviews (of 16) in which the interviewee mentioned the theme.

Table 4. Fit by adaptation: the underlying mechanisms of network adaptation of Cohort B

Mechanisms	Evidence	Examples
1. The relatively favorable regulative institutions and development of the market moderate network dependence on certain ties.	16	State policies are more open and favorable to private enterprises. This expands the area of entrepreneurship. Earlier [After 2002], entering some high-ended field was difficult; now it is not that difficult....We are relying less on government connections, and it is a relatively pure market behavior. (WB)
2. Regulative institutional support creates more network opportunities with government entities.	6	You need to cooperate with the government in some activities...For the government, it is its political achievements. For us, it is an opportunity to improve our public image....We went out [to the public] to help the Zhangjiang government. The Zhangjiang government also helped us....It was a reciprocal process. (YX)
3. The development of market institutions and mechanisms creates more network opportunities with market entities.	15	In the Internet industry, actually everyone has more or less contact with one another. We know that in the new economy, only cooperation can create opportunities. You come to me and I go to you. So I think in the IT industry, you can find everyone by three to four degrees. (YX)
4. Decoupling from or loose coupling with the traditional relational norms facilitate the departure from traditional <i>guanxi</i> practices.	11	I think our [entrepreneurial] generation puts more emphasis on the market than on traditional <i>guanxi</i> . It [ <i>guanxi</i> ] requires much time and energy. That [elder] generation relies on <i>guanxi</i> for some certain reasons. But for us, capability is more important. (WB)
5. Coupling with new relational norms facilitates new networking behaviors.	12	At the beginning, we had no talent, no market, and no capital. However, we became accepted by venture capital because of our technology.... I then accumulated the users and reputation with the financial support from venture capital, then I negotiated with the content providers, and the chances [of cooperation] became greater. (YX)

<sup>a</sup> The figure indicates the number of interviews (of 17) in which the interviewee mentioned the theme.

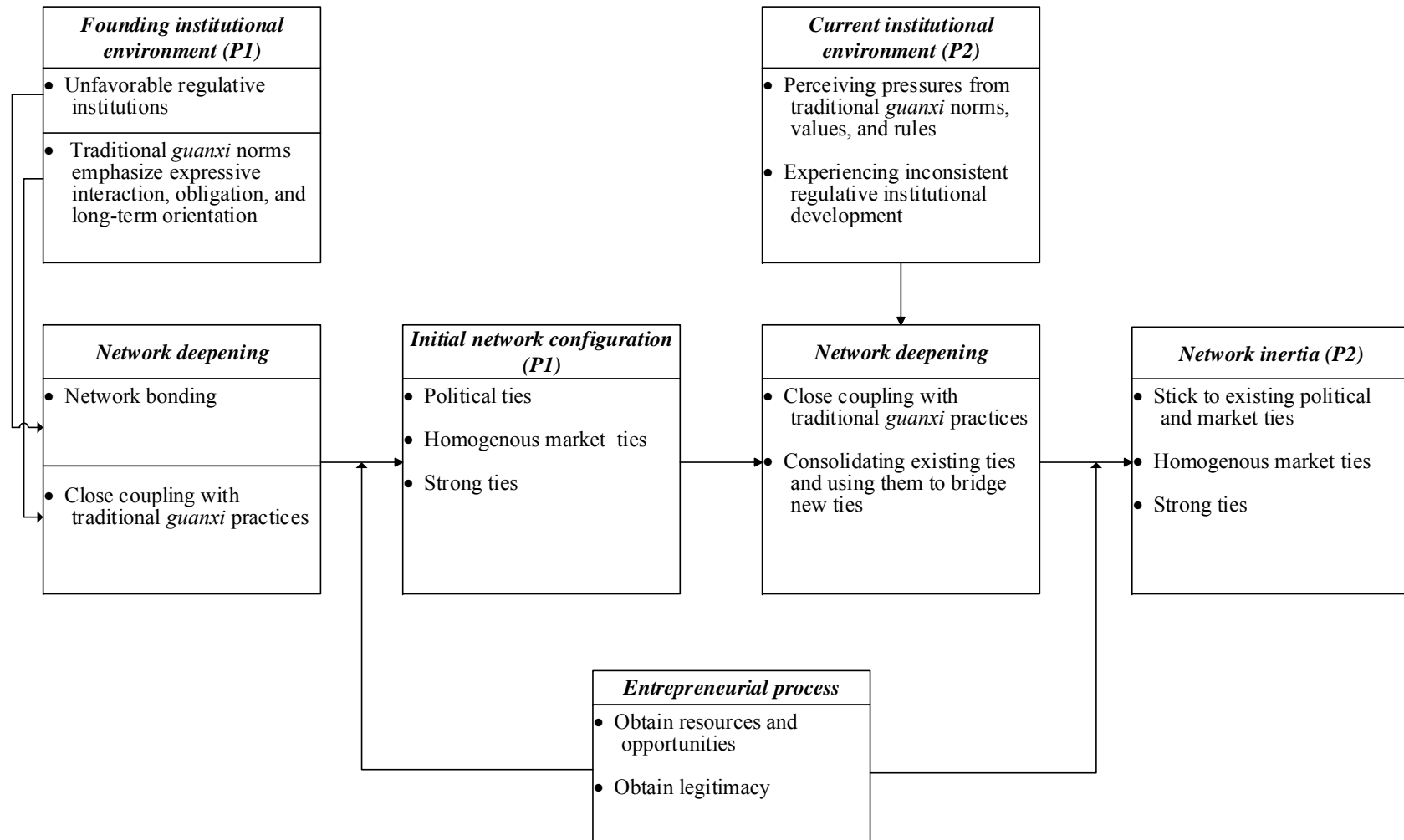


Figure 2. A model of process and mechanism underlying “not fit by adaptation”

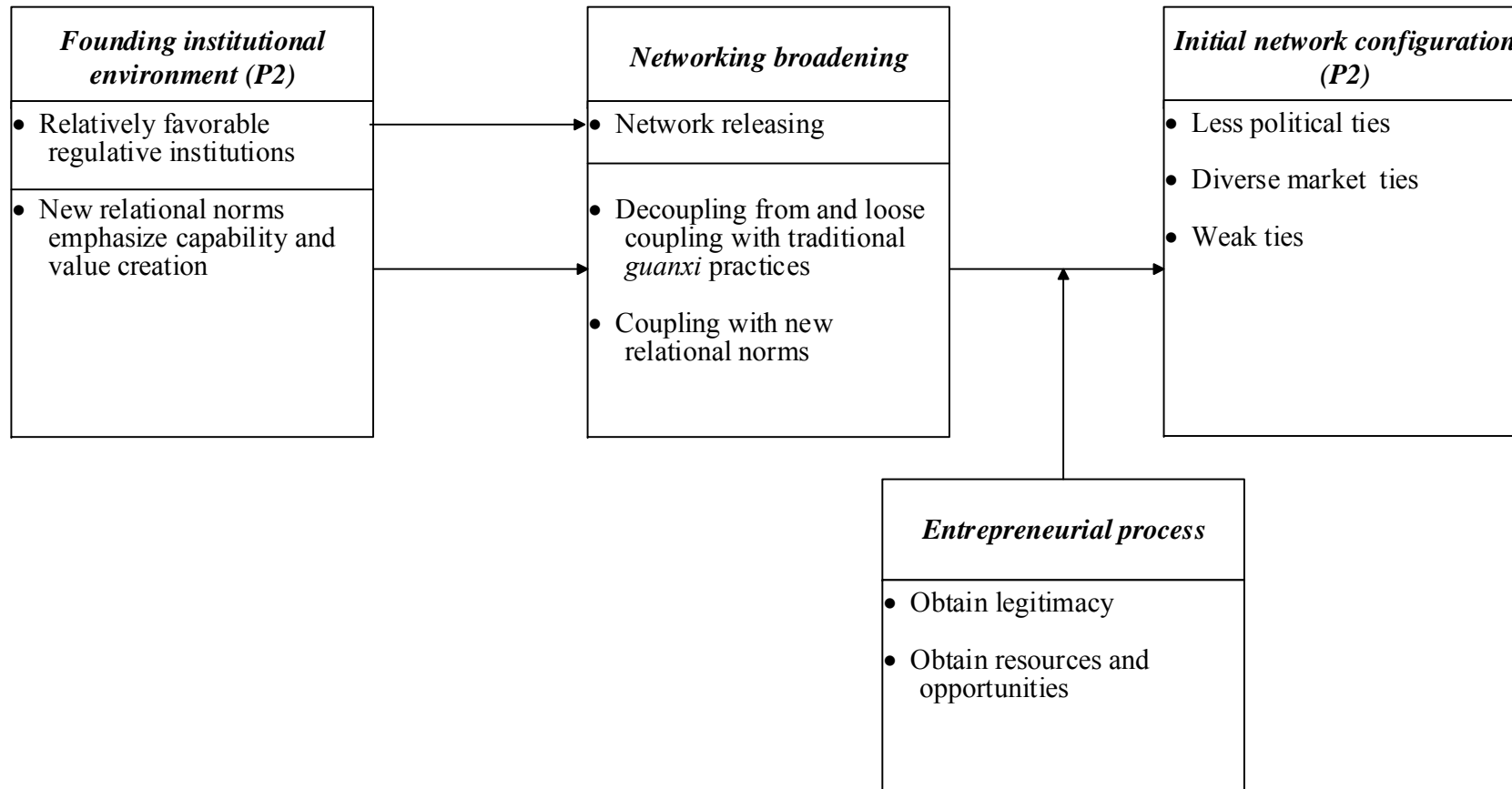


Figure 3. A Model of process and mechanism underlying “fit by founding”