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# Exploring the Entrepreneurial Ecosystem: The Role of Government Policy and Venture Capital in Start-Up Success in China

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**Abstract:** This study explores the influence of government policy and venture capital on the success of start-ups in China's dynamic entrepreneurial ecosystem. Adopting a quantitative approach, the research analyzes data collected through structured surveys administered to start-up founders, venture capitalists, and policymakers. The findings reveal that government policies such as subsidies, tax incentives, and regulatory support play a crucial role in creating an enabling environment for entrepreneurial ventures. Simultaneously, venture capital significantly contributes through funding, strategic guidance, and network access, fostering scalability and innovation. The study highlights the complementary nature of these factors, emphasizing that while government interventions address structural challenges, venture capital drives firm-level growth. However, regional disparities and sector-specific needs indicate the necessity for tailored approaches to maximize the impact of these interventions. The findings provide actionable insights for policymakers, investors, and entrepreneurs to refine strategies and foster a balanced and inclusive entrepreneurial ecosystem. In addition to examining the immediate impact of these factors, the study identifies areas for future research, including longitudinal analyses, sector-specific dynamics, and the role of regional disparities. These insights contribute to the broader discourse on enhancing start-up ecosystems and offer practical recommendations for fostering innovation-driven growth in emerging markets like China.

**Keywords:** Start-up Ecosystem, Government Policy, Venture Capital, Entrepreneurial Success, China

## 1. Introduction

The entrepreneurial ecosystem is essential for the success and sustainability of start-ups. A dynamic interaction between governmental initiatives and venture capital funding has enabled the swift expansion of start-ups in China. These factors are crucial to the entrepreneurial environment, affecting innovation, resource distribution, and market competitiveness. This research investigates the interdependent relationship between these elements and analyses their influence on the success of start-ups in China.

The Chinese government has enacted a series of initiatives to promote innovation and entrepreneurship, sometimes called the "mass entrepreneurship and innovation" initiative. Tax incentives, subsidies, and incubator programs have fostered a conducive atmosphere for start-ups (Li & Liu, 2020). The emergence of venture capital (VC) in China has stimulated entrepreneurial activity by offering crucial financial resources and strategic counsel. In 2021, China emerged as the second-largest venture capital market worldwide, highlighting its significance in fostering start-up ecosystems (Zhang et al., 2021). Notwithstanding these gains, the relationship between government policy and venture capital remains intricate. Although governmental initiatives seek to establish egalitarian opportunities and mitigate market failures, venture capital frequently emphasises profitability and scalability (Barg et al., 2021). The alignment or misalignment of these objectives can profoundly affect start-up results. The success of start-ups in sectors such as artificial intelligence and biotechnology frequently relies on a confluence of advantageous legislation and substantial venture capital backing (Khan et al., 2024).

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This research employs a quantitative methodology to evaluate the influence of government policy and venture capital on the success of start-ups in China. This analysis of empirical data seeks to elucidate the separate and cumulative contributions of these elements to entrepreneurial performance. Additionally, the study aims to discern significant patterns and connections that can guide politicians, investors, and entrepreneurs. Comprehending China's entrepreneurial environment is essential for scholarly inquiry and practical implementation. As China's economy shifts from a manufacturing-centric model to one driven by innovation, the efficacy of its entrepreneurial ecosystem will be a crucial factor in its global competitiveness (Huang et al., 2020). Furthermore, the results of this study may act as a standard for other developing countries aiming to emulate China's achievements in cultivating start-up ecosystems.

### 1.1 Research Gap and Significance

The existing literature on entrepreneurial ecosystems emphasises the importance of institutional and financial frameworks in promoting start-up success. There is a paucity of research quantitatively analysing the relationship between government policy and venture capital within China's distinctive economic and cultural context. Existing research predominantly examines developed economies, including the United States and Europe, thereby creating a notable gap in comprehending these dynamics within emerging markets (Audretsch & Belitski, 2017). The entrepreneurial ecosystem in China exemplifies a distinct scenario shaped by its hybrid economic framework, which features a significant state involvement alongside a dynamic private sector. The interplay between government policies and venture capital establishes a multifaceted landscape of opportunities and challenges. Government subsidies can reduce entry barriers for start-ups; however, excessive intervention may result in inefficiencies or dependency (Su et al., 2021). Venture capital can facilitate growth but may also introduce short-term profit pressures at odds with long-term innovation objectives.

This study utilises a quantitative methodology to assess the individual and collective impacts of these factors on the success of start-ups. It aims to transcend qualitative insights and anecdotal evidence by employing empirical data to yield statistically robust conclusions. The emphasis on quantitative analysis is significant due to the growing accessibility of datasets concerning Chinese start-ups, government initiatives, and venture capital funding. The study possesses practical significance for stakeholders. It provides evidence-based recommendations for policymakers on designing and implementing policies that align with venture capital dynamics. It offers venture capitalists insights into the ways policy frameworks can affect investment returns, either positively or negatively. Finally, it outlines strategies for entrepreneurs to navigate the ecosystem and effectively enhance their likelihood of success. This study addresses the research gap and provides actionable insights, contributing to the broader discourse on entrepreneurial ecosystems. This aligns with international initiatives to understand the determinants of innovation and economic development in the 21st century. This study has two primary research objectives; to evaluate the independent and combined effects of government policies and venture capital on the success of start-ups in China and to identify key patterns and correlations within the entrepreneurial ecosystem that contribute to start-up sustainability and growth.

This study has two primary research questions:

- How do government policies influence the success of start-ups in China?
- What role does venture capital play in enhancing the performance and scalability of start-ups in China?

## 2. Literature Review

### 2.1 The Concept of Entrepreneurial Ecosystems

Entrepreneurial ecosystems consist of interconnected actors, policies, and resources that promote entrepreneurship in a specific region. Essential components comprise governmental institutions, financial systems, cultural norms, and educational frameworks, collectively influencing the entrepreneurial environment. Audretsch and Belitski (2017) emphasise that supportive ecosystems diminish obstacles for entrepreneurs, facilitating access to funding, mentorship, and infrastructure (Berger & Hottenrott, 2021). This viewpoint highlights that entrepreneurship is not an isolated phenomenon but is situated within a complex network of contextual factors. The entrepreneurial ecosystem in China has developed significantly in the last twenty years, influenced by economic reforms and initiatives led by the government. The "mass entrepreneurship and innovation" movement, initiated in 2015, exemplifies the Chinese government's dedication to promoting innovation-driven growth. This approach has been enhanced by the emergence of private sector entities, notably venture capital firms, which play a crucial role in financing and expanding start-ups. The interaction between public and private components raises questions regarding their synergy and effectiveness.

### 2.2 Role of Government Policies in Entrepreneurial Success

Government policies are essential in shaping entrepreneurial ecosystems by providing regulatory frameworks, financial incentives, and infrastructure support. The Chinese government has enacted policies to lower entry barriers for entrepreneurs, such as tax incentives, direct subsidies, and streamlined business registration procedures (Khan et al., 2024). Moreover, government-supported incubators and accelerators have increased, providing start-ups access to office facilities, technical knowledge, and networking opportunities. Excessive state intervention may lead to unintended

consequences. Su et al. (2021) indicate that excessive dependence on government funding can lead to inefficiencies, as companies may focus on obtaining subsidies rather than engaging in market-driven innovation. Additionally, state-led initiatives frequently prioritise strategic industries such as artificial intelligence and biotechnology, which may marginalise other sectors. Balancing government support with market-driven forces presents a significant challenge in formulating effective policies (Skare et al., 2023).

### 2.3 The Role of Venture Capital in Scaling Start-Ups

Venture capital (VC) is a fundamental component of entrepreneurial ecosystems, offering financial resources, strategic guidance, and network access (Gompers & Lerner, 2001). The venture capital market in China has experienced substantial growth, with a notable concentration of investments in technology-driven sectors. Zhang et al. (2021) emphasise that venture capitalists frequently influence the strategic direction of start-ups, facilitating their scalability and competitiveness. The relationship between venture capital and start-ups presents several challenges. Venture capitalists generally emphasise high-growth ventures, potentially resulting in pressures for swift expansion that compromise sustainable development (Khan et al., 2024). The concentration of VC funding in urban centres such as Beijing, Shanghai, and Shenzhen intensify regional disparities, resulting in start-ups in less-developed areas facing restricted access to capital.

### 2.4 Interplay Between Government Policy and Venture Capital

The relationship between government policy and venture capital is critical to China's entrepreneurial ecosystem. In certain instances, these two forces converge to generate advantageous synergies for start-ups. Government-sponsored funds of funds frequently co-invest with private venture capital firms, utilising public resources to draw in private investment (Huang et al., 2020). Tensions may emerge when policy objectives are at odds with market-driven goals. Governments seek to foster equitable growth and tackle societal issues, whereas venture capitalists typically prioritise profitability and scalability. Khan et al. (2024) indicate that such misalignment may result in inefficiencies, especially when state-supported enterprises do not yield the anticipated returns. Regulatory uncertainties, including sudden policy changes, can hinder venture capital investments, highlighting the necessity of a stable institutional environment.

### 2.5 Sectoral and Regional Variations

The influence of government policy and venture capital differs among sectors and regions in China. High-tech industries such as artificial intelligence, renewable energy, and biotechnology have received significant advantages from government support and venture capital funding. This sectoral emphasis corresponds with China's overarching economic strategy aimed at transitioning to an innovation-driven economy (Mehralian et al., 2016). Disparities continue to exist between urban centres and underdeveloped regions. Cities such as Beijing, Shanghai, and Shenzhen have developed strong entrepreneurial ecosystems, marked by a significant presence of start-ups, investors, and research institutions. Rural areas and smaller cities encounter difficulties including restricted access to capital, talent, and infrastructure (Zhang et al., 2021). Addressing these disparities necessitates the implementation of targeted policies that take into account the distinct needs of various regions.

### 2.6 Theoretical Frameworks in Entrepreneurial Ecosystem Studies

Various theoretical frameworks have been utilised to examine entrepreneurial ecosystems. The resource-based view highlights the significance of access to tangible and intangible resources, such as capital, talent, and networks. Institutional theory emphasises the influence of both formal and informal institutions on entrepreneurial behaviour. In China, institutional theory holds particular relevance due to the substantial influence of state intervention. Research indicates that institutional voids, including inadequate intellectual property protection, may impede innovation despite robust policy support (Huang et al., 2020). The resource-based view emphasises the significant function of venture capital in mitigating resource deficiencies, especially for start-ups in capital-intensive industries.

## 3. Research Method

This research employs a quantitative methodology to examine the influence of government policy and venture capital on the success of start-ups in China. This method entails collecting and analysing numerical data to discern patterns, relationships, and causal links within the entrepreneurial ecosystem. This research utilises a survey-based approach to collect primary data from start-up founders, venture capitalists, and policymakers. The quantitative methodology guarantees objectivity and facilitates the use of statistical techniques for hypothesis testing. This research utilises descriptive and inferential statistics to evaluate the impact of government policy and venture capital on start-up outcomes, including growth rate, profitability, and innovation capacity. The study quantifies these relationships, offering actionable insights for policymakers and investors. The methodology facilitates generalisability, providing a comprehensive understanding of how these factors influence entrepreneurial success across various regions and sectors in China.

### 3.1 Research Design

The research employs a cross-sectional survey design, using structured questionnaires to collect data from participants. The survey design is chosen for its efficiency in capturing diverse perspectives and quantifiable data within a specific timeframe. Structured questionnaires are developed based on existing literature and tailored to address the research objectives and questions.

The questionnaire is divided into three sections:

- Demographics and Business Information: Includes data on firm size, industry, and years of operation.
- Government Policy Impact: Focuses on the perceived influence of subsidies, tax incentives, and regulatory frameworks.
- Venture Capital Influence: Examines the role of funding, strategic guidance, and investor networks in scaling operations.

The questions use a Likert scale to measure perceptions and experiences, ensuring standardization and comparability of responses. Pre-testing of the questionnaire is conducted with a small sample to refine clarity and validity. This design provides a systematic framework for examining the impact of government policy and venture capital on start-up success. The survey method ensures that data is representative of the population while enabling statistical analysis to validate findings and draw meaningful conclusions.

### 3.2 Population and Sample

The study population comprises founders and executives of start-ups in China from diverse industries. The target population includes venture capitalists and policymakers directly impacting the entrepreneurial ecosystem. The sampling frame is derived from databases, including Crunchbase and government start-up registries, ensuring diversity across industry, region, and business stages. A stratified random sampling method ensures representation across essential sectors like technology, manufacturing, and services. The sample size is established through power analysis to ensure statistical significance and reliability. The expected sample size is 300 participants, including 200 start-up founders, 50 venture capital representatives, and 50 policymakers.

### 3.3 Instrumentation

A structured questionnaire serves as the primary tool for collecting quantitative data. The questionnaire utilises validated scales from prior research, modified for the Chinese context. The questions are designed to assess independent variables, precisely government policy and venture capital, alongside dependent variables, including start-up success indicators such as revenue growth, market share, and innovation outcomes. The instrument is subjected to reliability testing through Cronbach's alpha to verify internal consistency. Content validity is determined by expert evaluations conducted by scholars and industry professionals. A pilot test is conducted to enhance the instrument's clarity and appropriateness prior to full deployment.

## 4. Findings and Discussions

The Fig. 1 shows the key findings from the survey on the roles of government policy and venture capital in start-up success within China's entrepreneurial ecosystem. Each chart highlights the relative contributions of various factors, offering insights into the dynamics that influence entrepreneurial outcomes.

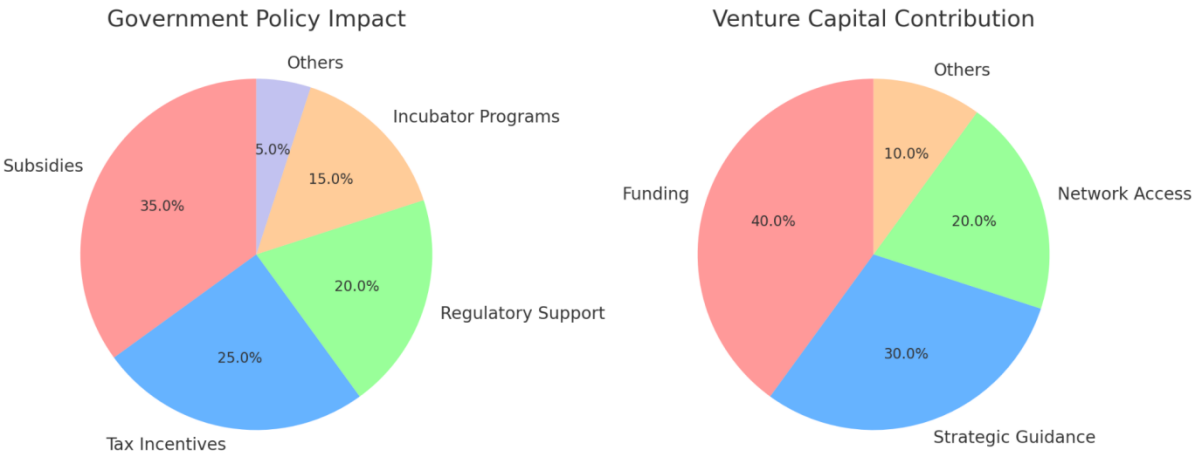


**Figure 1.** Pie Charts show the result of data collected

- **Government Policy Impact**

The first pie chart depicts the effectiveness of different government policies as perceived by the respondents. Subsidies emerge as the most impactful policy, accounting for 35% of responses. This finding underscores the importance of financial support in lowering entry barriers and enabling resource-strapped start-ups to pursue innovation. Subsidies often provide critical capital for R&D and operational stability during a start-up's early stages. Tax incentives are the second most influential factor, cited by 25% of respondents. Tax reductions and exemptions create a favourable financial environment, allowing start-ups to reinvest savings into growth activities. Regulatory support accounts for 20%, indicating the importance of streamlined business processes and policies promoting ease of business. Incubator programs, representing 15%, highlight the role of government-backed initiatives in providing infrastructure, mentorship, and networking opportunities. The "Others" category, comprising 5%, likely includes niche policies such as export incentives or regional grants, reflecting their limited but specific impact.

- **Venture Capital Contribution**

The second pie chart examines the contributions of venture capital (VC) to start-up success. Funding is the dominant factor, cited by 40% of respondents. This result aligns with the primary function of VC firms: providing critical financial resources that enable start-ups to scale operations, enter new markets, and invest in technology development. Strategic guidance is the second most significant contribution, identified by 30% of respondents. Venture capitalists often bring industry expertise and strategic insight, guiding start-ups through critical decisions and growth phases. This mentorship and active involvement differentiate venture capital from other forms of financing, such as traditional loans. Network access, highlighted by 20% of respondents, underscores the value of VC firms in connecting start-ups to industry stakeholders, potential clients, and collaborators. These connections can accelerate market entry, enhance credibility, and foster partnerships. The “Others” category accounts for 10%, encompassing additional benefits such as talent acquisition support or assistance navigating regulatory challenges.

- **Comparative Analysis**

The charts illustrate that government policy and venture capital are both essential, albeit distinct, factors in promoting entrepreneurial success. Government policies primarily target structural and systemic challenges, establishing a supportive framework for start-ups. Conversely, venture capital emphasises the operational and strategic development of specific companies. The findings reveal potential gaps and opportunities. Subsidies and funding are prominent in their respective charts, whereas incubator programs and network access receive comparatively less emphasis, indicating potential for improvement in these areas. The limited proportion of the “Others” category in both charts underscores the concentrated influence of primary factors, although specialised policies and contributions may still be crucial for particular start-ups or sectors.

The Fig. 1 illustrates the relationship between government policy and venture capital in influencing China's start-up ecosystem. The findings indicate a complementary relationship in which government initiatives create a supportive environment, while venture capital facilitates growth at the firm level. Stakeholders may utilise these insights to enhance policies and investment strategies, thereby promoting balanced and sustainable development within the entrepreneurial ecosystem.

## 5. Conclusion

This study analyses the influence of government policy and venture capital on the success of start-ups in China's entrepreneurial ecosystem. The findings highlight the interdependent relationship between these factors: Government policies offer structural support via subsidies, tax incentives, and regulatory frameworks, whereas venture capital supplies financial resources, strategic guidance, and network access. Collectively, these factors establish an environment that fosters innovation and growth for start-ups. Nonetheless, challenges, including regional disparities and the necessity for balanced interventions, persist as significant issues. Resolving these issues necessitates a detailed comprehension of the intersection between public and private sector initiatives within the larger ecosystem.

This research provides practical implications for policymakers, venture capitalists, and entrepreneurs. Policymakers ought to prioritise the development of balanced interventions that facilitate start-ups while avoiding the creation of dependency on subsidies. Expanding incubator programs and streamlining regulatory processes may improve the accessibility and efficiency of government support. Venture capitalists must prioritise sustainable growth strategies to ensure that emphasising rapid scalability does not compromise long-term innovation potential. Collaborative initiatives, including public-private partnerships, can enhance the effectiveness of these efforts by aligning policy objectives with market-driven goals.

Subsequent research should focus on addressing the identified gaps in this study. Longitudinal studies are necessary to investigate the long-term impacts of government policies and venture capital on the sustainability of start-ups. This study offers a brief overview of their immediate impacts; however, an extended timeline may uncover more profound insights into their lasting significance. Sector-specific analyses are necessary to comprehend the differential impact of

these factors across industries. High-tech start-ups may benefit from venture capital more significantly, whereas traditional industries often depend significantly on government incentives. Future research should investigate regional disparities' influence on start-up ecosystems' development. Urban centres such as Beijing and Shanghai possess ample resources; however, rural and underdeveloped areas encounter distinct challenges that necessitate customised intervention. Incorporating qualitative methods, such as interviews or case studies, may offer a richer context and enhance the quantitative findings presented in this study. Addressing these areas will enhance understanding of the entrepreneurial ecosystem, allowing policymakers and investors to promote sustainable growth and innovation in various contexts.

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