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Research on the Development of Rural Micro Enterprises in China

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Abstract The great significance of rural micro enterprises to improving the farmers' incomes and rural economic development is pointed out. Through analyzing the existing funds, talents and system problems during the development of rural micro enterprises, it is proposed to construct and improve the financial credit system, strengthen education and training, enhance the construction of enterprise system and improve the leadership.

Key words Micro enterprises, Financing, Talents, China

1 Connotation and Significance of rural micro enterprises

1.1 Connotation of rural micro enterprises As Organization for Economic Cooperation and Development (OECD) notes in its *Development and Cooperation Report* in 1991, rural micro enterprise is the small-scale enterprise established by those self-employers and their family members in developing countries with the number of employees ranging from 2 to 10, and most of the enterprises are labor-intensive small workshop^[1]. According to the research status both at home and abroad, rural micro enterprise could be defined to be the economic organization isolated from small and medium-sized enterprises with family as the basic form, the number of employees below 10, the premises and working place concentrated in wide rural areas, and with the processing of agricultural products and traditional handicraft products as main marketing objects, it has easy and clear organizational structure, flexible and diversified modes of operation, and mixed property and management rights, and it pursues the objective of economic benefits. Therefore, rural micro enterprise is characterized by small scale, small number of employees, family mode of management, flexible mode of operation and low scientific and technological level and so on.

1.2 Great significance of developing rural micro enterprise

1.2.1 Increasing farmers' income, expanding employment and promoting rural economy. Rural micro enterprises are favored with the advantages of small venture capital, flexible mode of management, small business risks and stable income and so on. By setting up their own micro enterprises, and producing their specialized products, the farmers could not only increase their incomes, solve the employment problems of their family members or other persons, but also help improve the incomes of more rural surplus labour forces. Restricted by the resources conditions, economic foundation, traffic location, human conditions and so on in rural areas, the development of large, medium and small-sized enterprises is hard, but to de-

velop micro enterprises is beneficial to adjusting the single agriculture-based economic structure, altering the extensive mode of development, and adding more rural market players so as to further promote rural economic development.

1.2.2 Being conducive to the nurture of entrepreneurship. In his *Theory of Economic Development*, J. A. Joseph Alois Schumpeter proposes the innovative ideas of economy, deems that the indomitable, challengeable and risky entrepreneurship is the important force for promoting economic development^[2]. The development of micro enterprises could cultivate a large number of entrepreneurs for society, so as to improve the enterprise consciousness and innovative spirit of the whole society as well as the explorative and audacious entrepreneurship. Due to the small scale and few employees of rural micro enterprises, the entrepreneurs are both leaders and common employees, therefore, their management level and economic benefits largely depend on the economic awareness and management capacity of rural entrepreneurs. The development of rural micro enterprises promotes the nurture of entrepreneurship as well.

1.2.3 Being conducive to new socialist countryside construction. The farmers are the main operator and manager of rural micro enterprises, their scientific and cultural quality as well as management competency directly influence the economic benefits. The development of rural micro enterprises proposes objective requirements that the farmers should constantly learn to improve their quality of all aspects, which, as a result, promotes the growth of well-educated, skilled and new-type farmers good at managing. On the other hand, the gradual development of rural micro enterprises prospers rural economy, increases the farmers' incomes and improves rural infrastructure, which will further narrow urban-rural gap, improve coordinated urban and rural development level and promote new socialist countryside construction.

2 Problems in the development of rural micro enterprises

2.1 Lack of funds and financing difficulties Due to its small scale and few employees, rural micro enterprises are

weak against risks, most of them go bankruptcy as a result of lacking enough operating capitals. Since their development is featured with high input, low returns and lots of uncertainties, large commercial banks and risk investment institutes are not willing to provide them with loans. Although the credit guarantee system for SMEs has already been set up, and some financial institutes have started to provide those SMEs with loans and other financial services, there are by far no related supportive policies for micro enterprises, many commercial institutes haven't seen the advantages and prospect of rural micro enterprises, and treated rural micro enterprises and SMEs on an equal footing. On the other hand, since it is difficult to apply for loans from commercial banks, those rural micro enterprises have to turn to private lending, which will lead to the further increase of operating costs and affect their long-term development. As shown in Fig. 1, 31.25% of the lending rate is 3–4 times benchmark interest rate, 41.25% is 2–3 times benchmark interest rate, and those two accounts for over 70%, only 5.00% is 1–1.5 times the benchmark interest rate^[3]. The lack of capitals and over-high financing costs puts the development of rural micro enterprises under great pressure.

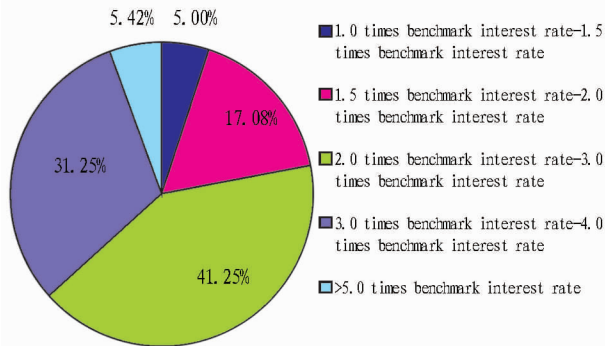


Fig. 1 Interest rate of those non-bank financial institutions chosen by rural micro enterprises

2.2 Low quality of employees and talents shortage The founders of rural micro enterprises are generally the farmers with good business sense and certain skills, their entrepreneurship is motivated by the desire to improve their living standards and realize the dream of being their own boss, but most of them are short-sighted, and the employees are family members of the founders or the people in their villages with low quality. The enterprises founders, in consideration of saving costs, provide little business and skill training for their employees. At the initial stage of starting a business, motivated by the working enthusiasm and passion of the founders, the quality of employees may not influence the development of enterprises, but it will greatly affect their future development prospect, and restrict their innovative capacity and crisis public relations. On the other hand, on account of low wages and welfare, those rural micro enterprises could not attract those skilled and professional managers, and even those admitted talents are easy to lose. Therefore, talents are increasingly become the obstacles in the development of rural micro enterprises.

2.3 Unscientific and imperfect management system Most of rural micro enterprises are family-owned, which is constructed

based on kinship, their main leaders and managers are family members, therefore, the enterprises systems are backward, lack clear and realistic management articles and employee handbook, without reasonable development plan and clear enterprise culture. On the other hand, due to the small scale of enterprises, the founders have natural patriarchal authority. The patriarchal management system, although could realize decisive decision-making and catch the fleeting development opportunity, would ignore the binding character of the system, resulting in the chaos in the internal management of enterprises and the vicious comparison among employees, the working environment and cooperation phenomenon are greatly influenced, which is detrimental to the scientific and sustainable development of the enterprises.

3 Suggestions to developing rural micro enterprises

3.1 Establishing and improving the financial credit system of rural micro enterprises The government should put its focus of policies on solving the funds for developing rural micro enterprises, establish a financial credit system especially for rural micro enterprises as soon as possible, and promote those commercial financial systems to provide diversified financial services. Firstly, the state government should work out the development plan of rural micro enterprises, and implement supportive policies which accord with the situation of our country; secondly, to increase the investment of each level government finance for the development of rural micro enterprises, and set up the financial-capital-based rural micro enterprises development funds which widely absorb private and social capitals of those large and medium-sized enterprises, commercial banks, risk investment institutes and so on. Meanwhile, the approval and examination procedures should be strictly prescribed, so as to provide certain capital support for those micro enterprises which have broad development prospect and could widely expand the employment; thirdly, to strengthen the construction of rural financial eco-environment, reform the existing rural financial system, and construct perfect rural financial credit system which involves rural micro enterprises, with certain commercial bank as pilot project, various financial services would be provided especially for those enterprises, then according to the experiences, related measures are perfected so as to encourage more commercial and financial institutes to provide services for those rural micro enterprises; finally, to regulate private lending and illegal money exchange, and expand propagation, so as to secure more funds from financial institutes for the development of rural micro enterprises.

3.2 Strengthening education and training, and improving human resources Most of the employees in rural micro enterprises come from rural areas, their low quality restricts the long-term development of enterprises, this situation, however, would be greatly improved through on-the-job and off-job training. Firstly, to carry out enough promotions to change the attitude of founders of rural micro enterprises towards training, and raise their attention on the importance of training; secondly, each

level of local governments set up special department for dealing with the development issues of rural micro enterprises, enhance their relations and cooperation with universities and colleges, especially with those specialized in management and finance, encourage those universities to open up training majors and courses for the people in rural micro enterprises, the government provides funds or free on-the-job training for those employees in the micro enterprises, through training, the comprehensive quality of those employees would be greatly improved. Thirdly, through formulating related policies, such as tax deduction, financial support, assisted propagation and so on, the government could absorb good vocational education and training institutions to settle down in rural areas and provide various long-term training services so as to facilitate the related training of employees in rural micro enterprises. On the other hand, the competition among enterprises is actually the competition of talents^[4]. Therefore, apart from the training of employees, the employers should put some of their attention on the introduction of talents, the broad propagation of rural micro enterprises would change the attitude of university students towards the difficult development of rural micro enterprises, and encourage their initiatives in going down to grass-root units to exercise; the leaders of rural micro enterprises should construct competitive salary and welfare system and normal wage increase system, expand the proportion of performance wage, and provide opportunities of on-the-job training and paid vacation, so as to attract talents and lay material foundation.

3.3 Strengthening the construction of enterprise system and improving leadership The effective operation of enterprises needs outstanding leaders and managers, but relies more on the construction of management system and operation mode of leaders. The leaders of rural micro enterprises could design by their own or invite professional management consulting company to formulate management system and employee rules which accord with the practical situation of their own enterprises. The enterprise leaders should set a good example with their own conducts, do everything according to the prescribed rules of the enterprises, improve their communicating

skills with employees and listen to the opinions of the masses, in this way could the dictatorial and patriarchal management pattern be gradually transformed into the democratic and masses-involved management mode. Moreover, enough attention should be paid to the construction of enterprise culture, through creating a good and harmonious working environment, the working enthusiasm of employees would be greatly motivated, thus improving the operating efficiency of enterprises.

4 Conclusion

To develop rural micro enterprises is an important path to increasing the incomes of farmers and relieving the employment pressures of cities. China has isolated the concept of micro enterprises from that of SMEs, and implemented some supportive policies for the development of micro enterprises, which has great significance to their growth. As a systematic engineering, the development of rural micro enterprises calls for both the support of government policies and marketized cultivating. With the constant development of socialist market economy, especially the improvement of the marketization of vast rural areas, rural micro enterprises would develop rapidly, which improves the industrial structure of China and further promotes the integration process of urban and rural areas.

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