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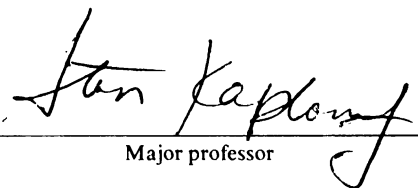
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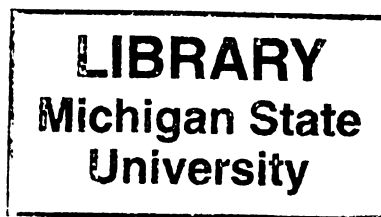
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SOCIETY, INDIVIDUAL ABILITY, AND MOTIVE

A Socio-Psychological Study
on Entrepreneurial Activities in Chinese Rural Enterprises

Volume I

By

Wei Chen

A DISSERTATION

Submitted to
Michigan State University
In partial fulfillment of the requirements for the degree of

DOCTOR OF PHILOSOPHY

Department of Sociology and Urban Studies Programs

1999

ABSTRACT

SOCIETY, INDIVIDUAL ABILITY, AND MOTIVE

By

Wei Chen

The rapid growth of Chinese rural enterprises since the late 1970s was a great opportunity for scholarly investigations on societal development and human behavior since a great variety of changes occurred in a short period and at a huge scale. Through analyzing how the actions of Chinese rural entrepreneurs in business operation were affected by environmental and personal conditions and how their actions affected changes in Chinese society, this study intends to shed lights on the causes and processes of societal change, economic development, and human behavior. It adopts a balanced and integrated perspective of investigation in which the impacts of environmental and personal conditions on societal changes and human behavior were equally emphasized. Chinese rural entrepreneurs become the focus of this study because they are the key links of all other critical conditions of development.

This study is based on data collected through my one year field work from July 1994 to June 1995 in China, primarily from three main research sites: Jinjiang City, Wujiang City, and Tongliang-Dazu. These three sites differed substantially in term of natural conditions, level of economic development, local government policies toward rural enterprises, and other conditions. Through interview, survey, and documentary research, qualitative and quantitative data were collected on the personal characteristics

of rural entrepreneurs, conditions of Chinese society and research sites, relevant historical events, and business performance of individual companies.

There are three major findings. 1) Supporting the central theorem that a societal phenomenon is the result of people's actions and human behavior is jointly determined by environmental and personal condition, the data show that individual characteristics and the conditions of business environment determined the behavior of rural entrepreneurs and the performance of their companies. Collectively, their actions contributed greatly to the success of Chinese rural enterprise. 2) The development of Chinese rural enterprises follows an evolutionary and progressive process in which the development of one stage was always built on the previously prepared conditions and its outcomes became the conditions for the next stage. 3) Personal and environmental conditions affected the actions of rural entrepreneurs in interactive and interdependent manners. While the actions of rural entrepreneurs were affected by various factors, the outcome of their actions changed the conditions of those factors and created new business environments in which they were required to modify their actions for further development.

This study also produced supportive evidence for several theoretic propositions regarding economic development and human behavior, such as the positive impact of n Ach on entrepreneurial activities (McClelland, 1961) and the joint impact of personal and environmental conditions on human behavior (Lewin, 1935). A new approach of assessing personal characteristics in predicting individual behavior and performance, the affective measure of Need for Achievement, was tested in this study and the findings supported its criterion-related validity.

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1999

To China, my motherland and a country with more than five thousand years of continuous civilization.

Acknowledgment

About five years ago this moment, much of my time was spent on trying to get a grant for the proposed field work in China. To my disappointment, my proposals were all rejected primarily because reviewers regarded this project as too ambitious to be realistic. I was annoyed by the reason of rejection because many great scientific findings are the results of seemingly impossible attempts. If everything is completely foreseeable, what is the point of research?

Fortunately, their suspicions did not swerve my determination to undertake this project, or I may not sit here and write the acknowledgment. My determination was based on my belief that people of all life avenues, whom I may know or may have not encountered up to that time, would support this project and help me to turn a very challenging task into a successful story. They would support this study because it addressed issues concerned by many people.

My belief was proved valid. During my one year field work in China, I was fed and housed by people of all life avenues. They also provided me with transportation to visit numerous companies, organized seminars so that I could collect survey data, and supplied me with precious information on all aspects of rural enterprises. Their supports made it possible for this study to cover a vast geographic area, obtain interview data from hundreds of entrepreneurs and people in other fields, and collect survey data from a substantial sample of rural entrepreneurs. Compared with the achievement of this study, the financial resources that I had invested personally was negligible.

Now the last chapter has been completed and I need to write the acknowledgment as the standard requirement of a dissertation. When I started to think of people who made significant contributions to this study, suddenly, I realized that there were so many of them. For a moment, I was confused and did not know where to start. Then, I had myself calm down and began to dig deep into my memory and retrieve their names and contributions.

The first group of these people are members of my dissertation committee and faculty at Michigan State University. Dr. Stan Kaplowitz has been my major advisor since I started my graduate program at MSU in 1990 and the committee chairperson. In our ten years relationship, Stan is always very supportive to my study. While allowing me tremendous freedom in choosing the direction and topic of research, I was particularly grateful that he frequently had me listen to others' constructive critics and comments. Sometimes, I felt burdensome to incorporate inputs from many sources. At the end, however, I realized how valuable these inputs were to broad the scope of my thoughts, deepen my understanding, and enhance the quality of my study.

Dr. Kevin Ford, Dr. John Schweitzer, Dr. Rita Galin, and Dr. Steve Gold are members of my dissertation committee. Dr. Ford of Psychology Department played a key role in the second half of my Ph.D. program. He exposed me to the world of organizational psychology. Such an exposure proved critical to this study and my career. Several suggestions by Kevin were keys for the success of this study, for instance, the strategy of assessing entrepreneurial performance. Dr. Schweitzer of Urban Studies Programs was a great comforter when I was in difficult situations. He encouraged me to

make thorough preparation of the new affective motive instrument for testing in this study. That encouragement was so crucial and I will benefit from it all my life. Dr. Galin and Dr. Gold of Sociology Department helped me to break the compartment of my thinking in writing the dissertation. Therefore, I could address issues from a global perspective and in a framework of general scholarly inquiry rather than restricted attention on China. In addition to the members of my committee, I would also thank Dr. Tom Conner. His insist on strengthening my training in psychology exposed me to courses that proved to be critical to my dissertation study. Dr. Chris Vanderpool, chairman of Sociology Department, did all his power permitted to help this study.

My association with the Urban Affairs Programs at MSU is a great asset of mine. It exposed me to the knowledge of various disciplines, such as economics, political science, and urban development. For a multi-disciplinary investigation, my dissertation benefited greatly from these exposures.

The second group of people are my family members. As a great tradition of Chinese culture, the supports from parents to their children are always selfless and unreserved. A very crucial condition for the success of this study was the channels to make initial contact with the targeted research sites. Since most sites were selected because they met the research criteria rather than the convenience of existing connections, I had to start from ground zero to find ways to win the support of local government. Though many people helped, my parents and parents-in-law played a decisive role. Their contributions were so crucial because the channels of contact practically determined

whether the study could take place. Also with the support of parents from both sides, my life during the one year field work in China was a great joy.

My wife, Zhou Min, was a solid and very reliable source of support to all my endeavors. During my absence from the home, she courageously handled the load of a full time mother, a full-time transportation engineer, plus a part-time Ph.D. student. My lovely daughter, Chen Yanjao, who was four years old at the time of my field study, displayed very good behavior and companionship to my wife during my absence. She was also a warm reminder of the worth of my work. Their supports made my one year stay in China free of worry though I missed them a lot. My baby boy, Chen Tianhu, was born four days after I passed my oral defense. He was a great motivator pushed me to wrap up my dissertation before he officially joined my family and a great joy accompanied me during the last leg of my dissertation. My two dearest cousins, Zhang Gang and Zhang Yi, were always supportive to all my endeavors. My little sister, Chen Tao, was a sweet comforter and reminder of joy that added happiness to my hard work.

My dearest friend, Ms. Wang Youlan, is a special member of my family. My family's life since we came to the States was a wonderful experience because of her generosity and warm-heart. She exposed us to many aspects of American life that otherwise we might not have opportunities to experience. The sheer existence of such a family member was a great assurance to keep our minds free of worry. At the time when all my grant applications were rejected, she generously provide me with sufficient financial support for the planned field work.

The third group of people were those in the front-line of supporting my study. Among them, my dear friends in Fengzhu Bleaching Dying Company of Jinjiang City, Fujian Province, occupied a special position. I spent more than two months of my one year field work at this company. Mr. Li Aimin, the chief engineer of the company, was instrumental to introduce me into the company and set up contact with the local government of Jinjiang City. His personal experience provided me with very rich information on how a technical expert from a state institute contributed to the success of a rural enterprise. Mr. Chen Chengqin, the general manager of the company, was an outstanding entrepreneur with distinctive personality. I was amazed by many stories about him and very impressed by his handling of business. He was an enthusiastic supporter of the study and provided me with many crucial helps. He himself was a rich source of information for understanding the development of rural enterprises. His hospitality made my stay at Fengzhu a happy experience of life time. There are many other Fengzhu friends I need to thank, for instance, Mr. Li Changchun, the deputy general manager, Mr. Si Jianguo, and Ms. Yan Lizhen. I wish them well and the company well.

Jinjiang government supported my activities in Jinjiang City as well. Mr. Shi Yongkang, the Party secretary of Jinjiang City, was a government official with vision, passion, courage, and leadership skills. He enthusiastically supported this study. His support removed many obstacles for my study in Jinjiang. He was also instrumental to strengthen my connections with Wujiang government. I would also thank Mr. Gong Qingai, vice major of Jinjiang, Mr. Xie Luwei, deputy director of Rural Enterprises Bureau, and officials of Qinyang, Cizao, and Anhai township. Mr. Hong Rongchu, a very

capable young staff of Rural Enterprise Bureau, helped me to solve many practical problems and we became good friends.

Though many people helped me to nurture the opportunity for my field study in Wujiang City, Mr. Sheng Ronfa, the Party secretary of Wujiang City, was the decisive force. He left me with impression of openness, swiftness, and enthusiasm. With the back of Mr. Sheng, my activities in Wujiang City were very smooth. Mr. Wu Haibiao, vice mayor of Wujiang, surprised me with the great effectiveness of local government organization by making the survey study an easy task. The officials of Rural Enterprise Bureau organized various activities for my study. I would thank officials of Baishu, Meiyan, Taoyuan, Shengze, and Wanpin townships for their contribution to this study. My relatives at Meidong Village, Baisu Township, provided me with rich stories about peasant life and way of thinking. I would particularly thank Mr. Zhou Wei, an smart and energetic official of Rural Enterprise Bureau, who provided great administrative support to my activities.

For arranging the field work in Tonglian-Dazu, my parents-in-law played crucial role. They are well-respected in the local community. With their help, it was an easy endeavor on my part in this area. In addition, Mr. Zeng Xiangkun, the vice major of Dazu, Mr. Xiao Daisheng, deputy director of Dazu Rural Enterprises Committee, and other officials of Tongliang and Dazu government made significant contribution to this study as well.

The major part of data was collected from the three main research sites. Nonetheless, my initial contact with rural enterprises happened in other places, for

instance, Tong County of Beijing City, Yueyang City of Hunan Province, and Taicang City of Jiangsu Province. Ms. Zhang Xiaoyan, a good friend of mine, helped me with great enthusiasm for research opportunities. Her help led me to know the whole family of Mr. Zhang Shurui and Ms. Lou Meilin in Yueyang City. I stayed for two weeks in their home and was treated with great hospitality. I also collected a great amount of data with the help of his family. Mr. Luo Rong, the vice mayor of Miluo City, arranged a very constructive meeting with several rural entrepreneurs there. In Tong County, Mr. Yang Chengzheng, the deputy director of Rural Enterprise Bureau, provided me with great data on rural enterprises and his insights about this phenomenon. Mr. Zhu Rupeng, the deputy chairman of people's congress of Taicang City, and Mr. Zhu Fengmin, the deputy director of rural enterprises bureau made my activities in Taicang City very productive.

Mr. Sun Han, the Chairman of Political Consortium Committee of Jiangsu Province, Prof. Lu Xueyi, director of Institute of Sociology, Chinese Social Sciences Academy, Ms. Chen Fugui, director of planning division of Rural Enterprise Bureau, the Ministry of Agriculture, and other government officials and scholars helped me to understand rural enterprises from political and academic perspectives. Professor Zhou Hongda, vice president of Rural Enterprise Management College in Langfang City, Hebei Province, had rich knowledge and experiences about the development of rural enterprises. We had a long and very constructive discussion on relevant issues. Mr. Han Deqian and Ms. Lu Xiaohui of Beijing Aeronautic University helped to test the affective measure of need for achievement, a very special contribution to this study.

Mr. Chris Cercone, my buddy friend, spent a great deal of his time and energy to help me with my dissertation. He enthusiastically helped me to find relevant literature and improve my writing. He deserves my special thanks.

A very special and important person to this study was Dr. David C. McClelland. My dissertation borrowed heavily from his views of societal change, economic development, and entrepreneurial activities. I was amazed numerous times by the accuracy of his prediction and deepness of his understanding in various fields. His work on motive laid the foundation for the new affective measure of motive. In the later period of my dissertation, I was very fortunate to have the opportunity to work with David personally. My affective measure of motive was the link that got us together because David was excited by the new approach of predicting behavior and performance. Before David passed away in March 1998, we had frequent communications on a variety of issues. What I have learned from him greatly enhanced the quality of my dissertation and will benefit my career for years to come. In addition to his unrivaled wisdom, I admire David greatly for his vision, leadership, integrity, sincerity to friendship, forever young heart, and being open-minded to any sign of progress to the last moment of his life. This study also benefited greatly from the discussions with many of my colleagues at McBer Company & Co., founded by David McClelland. They helped me to deepen my understanding on how personal and environmental factors affect individual and organizational performance.

I found out that I had collected more than two hundred business cards of those who helped my study. Their names cannot be all listed here. Many other people did not

left their contact information. There are just too many people who made significant contributions. I sincerely thank them for their supports.

I would express my gratitude to hundreds of rural entrepreneurs I interviewed. They provided me with not only extremely rich information on my research subjects, but also strong inspiration that supported me to walk through the long and arduous path of writing this massive dissertation. They set great examples of pursuing excellence through the courage, enthusiasm, persistence, and confidence. Finally, I would express my sincerest respect to Chinese rural entrepreneurs and rural people in general. Their contribution is a very crucial factor that have made China a strong nation when the World is preparing to the approach of year 2000.

Table of Content

	Page
Acknowledgement	vi
List of Table	xxi
List of Figure	xxii
Table of Conversion	xxiii
 Chapter One: Introduction	 1
1. The phenomenon of Chinese rural enterprises: Countryside surrounds the city, again	6
Inter-regional disparity of development	9
2. Describing the phenomenon: What are Chinese rural enterprises?	11
From "Shedui Qiye" to "Xiangzheng Qiye": Shift of official terms and implications	12
Definition of Chinese rural enterprises	14
A narrower understanding: The manufacturing sector of rural enterprises	17
3. Understanding the phenomenon: Perspective of investigation	20
Some perspectives of investigation	20
Perspective of this study: The actions of rural entrepreneurs as the focal point	24
4. Description of the study	27
The process of data collection	27
Plan of writing	29
 Chapter Two: A historical perspective of Chinese rural enterprises: CCP's policies and practice	 38
Guerrilla base period (1928-1949)	38
1950-1965	48
1966-1977	53
Early period of the economic reform: Preparing for the big jump (1978-1983)	60
Development on the fast track: 1984-1989	65
Continuous development: 1990-1995	70
Summary	74
 Chapter Three: Explaining societal changes through the actions of grass-roots people: Some conceptual issues	 78
1. The actions of grass-roots people as the key to understanding Chinese rural enterprises	79
Mao's notion that people is the determining factor of change in a society	79

The importance of people in understanding Chinese rural enterprises	83
People at grass-roots level as the change agent	87
Elitism perspective of investigation.	92
Rural entrepreneurs as the focal point	96
2. Conceptual issues in analyzing people's actions	101
The joint effect of personal and environmental factors	101
A practical concern: Internal cause as the determining factor	104
Defining environmental factors	107
3. Personal and environmental conditions of entrepreneurial activities	111
Entrepreneurial role requirements	112
Need for achievement, general intelligence, and entrepreneurial success	114
Society, business environment, and entrepreneurial activities	117
The applicability of McClelland's theory in understanding Chinese rural enterprises	120
4. Summary	124
Chapter Four: A changing society: Opportunities for rural entrepreneurs	127
1. Economy first: the shift of CCP's policy priority as a precondition for growth	127
The change in CCP's policy priority	128
The rural reform and rural enterprises	137
Initiative of Chinese rural people and government policy adjustment	147
2. The social psychological conditions of entrepreneurial development	150
The nurture of entrepreneurial spirit in Chinese culture	150
The achievement orientation of CCP's education effort	156
3. Rural-urban dualism: Why did non-agricultural production flourish in rural areas	165
A forced choice: the blockade of rural-to-urban movement	167
Defusing urban resources to rural areas: The government efforts	170
Extracting urban resources: Unofficial links between rural and urban areas	175
Rural people's readiness for entrepreneurial activities: A by-product of rural-urban dualism	180
4. Opportunity for the majority: A precondition of massive development	183
5. Summary	190
Chapter Five: The stage on which rural entrepreneurs play the show	193
1. Market conditions at the early stage of development	193
The demand situation	194
a. Income constraints as an effective approach to suppress consumption	195

b. The psychological pressure to deter people from non-subsistent consumption	199
c. The quiet surface and stormy undercurrent	203
d. A hungry dragon waked up: The demand for consumption came to the surface	206
e. Other demands	211
Supply situations	213
2. Major potential players on the market	218
Production in the agricultural sector: Chinese peasants as the sole player and cheered heroes	218
Production in the non-agricultural sectors: Chinese peasants as cheered heroes, again	219
a. Chinese rural enterprises: the star player	220
b. State enterprises	228
c. Non-state industrial enterprises in urban areas	232
d. Foreign companies	233
3. Material conditions of rural entrepreneurial activities	236
China's comprehensive industrial base: The key contribution of state enterprises	236
Agricultural surplus labor: A precious resource of development	246
4. Summary	249
Chapter Six: Facing challenges: The motivated Chinese rural entrepreneurs	254
1. A rugged road of development: The difficulties faced by Chinese rural entrepreneurs	255
The difficulties associated with the low social status of rural people	257
Difficulties associated with other factors	264
2. Motivation of rural entrepreneurs and business success: Some popular explanations	269
Three popular explanations	269
Problems of those explanations	272
3. Achievement motive as a force to drive and sustain entrepreneurial activities	279
Acting against a standard of excellence	280
Take calculated entrepreneurial risks: Risk taking and risk reduction	292
Being sensitive to performance feedback	303
A state of restlessness that can only be calmed through entrepreneurial activities.	309
Assigning people with higher n Ach to entrepreneurial positions	318
4. Summary	321

Chapter Seven: Dealing with challenges:The competent Chinese rural entrepreneurs	326
1. Threshold requirements for a Chinese rural entrepreneur	326
Optimal physical ability to endure harsh living and working conditions	326
Strong mental ability to withstand disrespectful treatment by others	332
2. Abilities required to be a good rural entrepreneur	338
Analytical ability: The breadth of business thinking	340
Analytical ability: Prioritizing choices	347
Conceptual ability: Attacking the cause of problem	351
Conceptual ability and growth potential: Simplifying complex situation	358
Conceptual and analytical abilities: Delegating responsibility	360
Conceptual ability and business growth: Seeing the big picture	363
3. General intellectual ability	370
4. Strong mental ability to withstand uncertainty	377
5. Other-focused rather than self-centered	381
6. The phenomenon of "A small boat is easy to turn around"	389
7. Summary	398
Chapter Eight: Data speak: Findings of the survey study	404
Survey design	405
Procedure	405
Participants	407
Research sites	408
Part One: Descriptive results	410
Ownership	411
Year of establishment	413
Marketing approaches	414
Sources of capital	415
Location of major domestic customers	417
Source region of raw material	418
Source regions of key technical personnel	420
Concluding comments of Part One	421
Part Two: Testing theoretic propositions	424
1. Subjects of investigation and research hypotheses.	424
Variables	425
Hypotheses	428
2. Measurement.	431
Need for achievement	431
Ability	433
Freedom in decision making	434
Resource availability	435

Entrepreneurial performance	436
Demographic information	437
3. Analyses.	438
Testing the conceptual framework: motive, ability, environment, and entrepreneurial performance	439
a. Multiple regression analysis of the conceptual framework	439
b. Test other hypotheses	443
c. Correlational analysis by research site	444
Test of inter-regional difference on major variables	446
a. Level of economic development and collective n Ach	446
b. Business environment and the level of economic development	448
c. Freedom in business decision making	449
Part Three: Exploring the impacts of age, education, and CCP membership	452
Age, education, and entrepreneurial activities	454
The CCP membership and entrepreneurial activities	457
Review of quantitative analyses	460
Key findings	460
Limitations	464
Conclusion	466
 Chapter Nine: Mao Zedong, “Achieving Society,” Local Governments, etc.---	
- Important Issues Revisited	468
1. Mao Zedong's legacy, the foundation of take-off	468
The creation of a change and future oriented society	470
Nurturing pragmatic attitude in problem solving	473
Building a nation with self-confidence	476
Reform the society to disseminate opportunities to the majority	480
2. The painfully accumulated assets: Mao and Deng	483
3. The pragmatic side of the CCP and its permissive attitude toward rural enterprises	486
4. Inter-regional discrepancy and the role of local government	491
The impact of local government policies	493
The difference in the actions of local officials	497
5. A test of "Achieving society"	506
6. Summary	511
 Chapter Ten: Summary and Conclusion	515
1. A synthesis of findings	516
Society, individual ability, and motive	517
Evolutionary development	524
Interactive and interdependent process	527
2. Theoretical implications	533

Correlational vs. causal approach for studying entrepreneurship	533
Affective vs. cognitive indicator in predicting behavior	544
Subjective vs. objective measure of objective conditions	549
Other theoretic and methodological implications	552
3. Practical implications	555
Past cannot be severed: Progressive development vs. radical change	556
Initiative at grass-roots level and success of reform policy.	559
Need for achievement and societal change	561
Popular participation and large scale development	563
Quality of top management team and reform of state enterprises	565
4. The future of rural enterprises	567
Business life cycle and management priorities.	567
A phenomenon under unique historical conditions	572
5. Final words	573
Appendix A: A sketch of the three main research sites: Jinjiang City, Wujiang City, and Tongliang and Dazu Counties	578
Jinjiang City	578
Wujiang City	586
Tongliang and Dazu Counties	591
Sources of information for Appendix A	600
Appendix B: The survey questionnaire	601
References	614

	List of Table	Page
Table 1.1	Basic statistics of Chinese rural enterprises (1976-1995)	34
Table 1.2	Rural enterprises value added (Total and industry)	35
Table 1.3.	GNP (Gross National Product), national industrial output value, and industrial out put value of state owned enterprises (1978-1993)	36
Table 1.4	The characters of Chinese rural enterprises in the Eastern, Central, and Western regions (1985-1995)	37
Table 2.1	Statistics on commune industrial enterprises (1959-1965)	51
Table 2.2	Statistics on Chinese rural enterprises (1970-1978)	58
Table 2.3	Output value and taxes by collective and private enterprises	70
Table 5.1	Distribution of investment in capital construction by economic sectors (%)	252
Table 5.2	Per capita output of major agricultural products (1978-1984)	252
Table 5.3	The national output of major industrial products in China (1952-1984)	253
Table 8.1	Ownership distribution by site and overall situation	441
Table 8.2	Distribution of marketing approaches in individual and combined samples	414
Table 8.3	Major sources of capital by each site and the overall situation.	415
Table 8.4	Distribution of major domestic customers by site and overall situation	417
Table 8.5	Distribution of source regions for raw materials	418
Table 8.6	Source regions for technical personnel	420
Table 8.7.	Correlation coefficients of major variables	440
Table 8.8	Multiple regression analysis on entrepreneurial performance	441
Table 8.9	R Square and R Square change in multiple regression analysis	442
Table 8.10	Significance test of regression coefficients	443
Table 8.11	The correlation between entrepreneurial performance, ability, n Ach, and environmental variables by site	445
Table 8.12	ANOVA test on environmental variables by site	448
Table 8.13	Test of freedom in decision making by research site	450
Table 8.14	The correlation between education and need for achievement, day of receivable, and the number of close business partners	454
Table 8.15	CCP membership and entrepreneurial activities	459
Table A.1	Annual gross output value of rural enterprises	597
Table A.2	The number of rural enterprises	598
Table A.3	The number of workers	598
Table A.4	The value of annual industrial and agricultural output	599
Table A.5	The annual local government revenue	599

List of Figure

		Page
Figure 1.1	Division og geographic and economic regions in mainland China and locations of three main research sites	5
Figure 3.1	A causal model of entrepreneurial performance in Chinese rural nterprises	125

Table of Conversion

1 yuan = \$ 0.125 (between 1994-1999), or \$ 0.2 (around 1984), or \$ 0.33 (around 1978)

1 mu = 0.166 acre

1 square kilometer = 0.25 square mile

Chapter One

Introduction

As the world is preparing for the approach of year 2000, it becomes clear that the rise of Chinese economy since early 80s is one of the most profound phenomenon in the twentieth century. With few exceptions, both domestic people and foreign visitors were impressed by many easily visible signs of a drastically improved economy, such as newly built world-class hotels, commercial buildings, shopping centers, and luxury apartments and condos. These new buildings are mushrooming in the major cities as if they come to life by magic power. People may be surprised that they could have difficulties to find their way home in a place they lived for many years, even if they left that place for only a few years. Numerous construction projects often changed the outlook of a place beyond recognition.

While impressed by the rapid changes, driven by either practical concerns or intellectual curiosity, many questions are raised about the changes in the Chinese society. For instance, what are the causes of the economic miracle? Where does the energy for growth come from? What are the conditions for the success of Chinese economy? Are there any unique individual characteristics of Chinese people that are important to understand the changes? Can existing theories of various disciplines reasonably explain the economic growth in China? Does the development of China follow the similar rules that characterized the development in other countries? Does Chinese people acted similarly as people in other countries do in economic activities? Are there any important issues that

people have not been aware of in explaining economic development and individual behavior? Does the changes in China provide people with new information that can improve our understanding of economic growth and individual behavior. What profound impacts of a rising China will have on the future of the world? What are the implications of changes in China to the development of other countries?

This study is to answer some of these questions. As indicated by the title, it investigates the economic success in China through analyzing the impact of societal conditions and individual characteristics of Chinese people. I am particularly interested in issues such as human behavior and economic development, the conditions of Chinese society and their impacts on what had happened in China, and the general rules of economic development that can explain changes across different societies. These emphases reflect my long-held belief that any societal change is the results of people's action under certain environmental conditions. To understand changes in a society, we not only need to investigate the conditions of that society, but also and equally important to analyze the conditions of people in that society. People conditions primarily refer to people's desires for change, which are the energy and driving force of their actions, and people's capabilities to produce the expected changes.

Furthermore, I also believe that to truly understand the recent economic success in China, people have to look beyond the shows in major cities and focus attention on what has happened and is happening in the vast countryside. After all, the growth of Chinese rural economy supports and sustains the nation's economic miracle since 1978, when the economic reform started. This study specifically focuses on one phenomenon in Chinese

rural areas: the success of Chinese rural enterprises. The rapid growth of non-agricultural production in Chinese rural areas since late 1970s had profound impacts on Chinese society. The changes caused by rural enterprises were evident even to those who were not familiar with rural China. For instance, many factories that had been set up in the previous farmland created a new rural landscape that was completely incompatible with the traditional image of rural areas. That many peasants had turned themselves into industrial workers or business leaders almost overnight surprised people who would view rural people as reactive and conservative to changes. The goods produced by rural enterprises reached almost every corner of the world. Once regarded by the Chinese government as a supplemental element to rural economy, Chinese rural enterprises now account for about half of the nation's economy. The phenomenon of Chinese rural enterprises shattered many conventional views on rural economy, rural people, rural culture, and pattern of economic and social development.

Although the development of rural enterprises occurred in rural China, this phenomenon involved almost every section of Chinese society. The massive participation of Chinese rural people is a distinctive feature of this phenomenon. Nonetheless, the contributions from people of all other life avenues are critical to the success as well. The rapidly increasing importance of rural enterprises in China's economy and its comprehensive coverage of social groups makes this phenomenon a good case to investigate the impacts of societal conditions and individual characteristics on economic development. In a narrow sense, Chinese rural enterprises provide people with a window to

understand the recent economic success in China. This is also a great opportunity to study social and economic development in general terms.

In analyzing the development of Chinese rural enterprises, several stances will be taken in this study. First, I would argue that Chinese rural people's initiative was a direct causes and a major source of energy for success. Second, the interplay between the societal conditions and individual characteristics of rural entrepreneurs is critical to reveal the secrets of success because the actions of entrepreneurs are the key links of various critical elements in business operations, such as government policies, labor, technology, and other resources. Third, as a societal phenomenon, Chinese rural enterprises took place in an environment with many unique social, political, economical, and cultural conditions. Those conditions caused some unique features of this phenomenon. Nonetheless, the basic rules of economic growth and human behavior, that characterized the changes in other countries, apply in China as well and can be used to guide the investigation. Fourth and more importantly, to achieve a comprehensive understanding of this phenomenon, a holistic approach has to be taken in which the relationships between and impacts of critical factors are investigated simultaneously and systematically.

This study is primarily based on the qualitative and quantitative data collected in 1994-1995 in three main research sites: Jinjiang City of Fujian Province, Wujiang City of Jiangsu Province, and Tongliang and Dazu Counties of Sichuan Province. Figure 1.1 shows their locations in China. These data were developed through survey to and in-depth interview with rural entrepreneurs, local officials, workers, scholars, and other people. The three main sites are selected because they contrasted sharply with each other in the

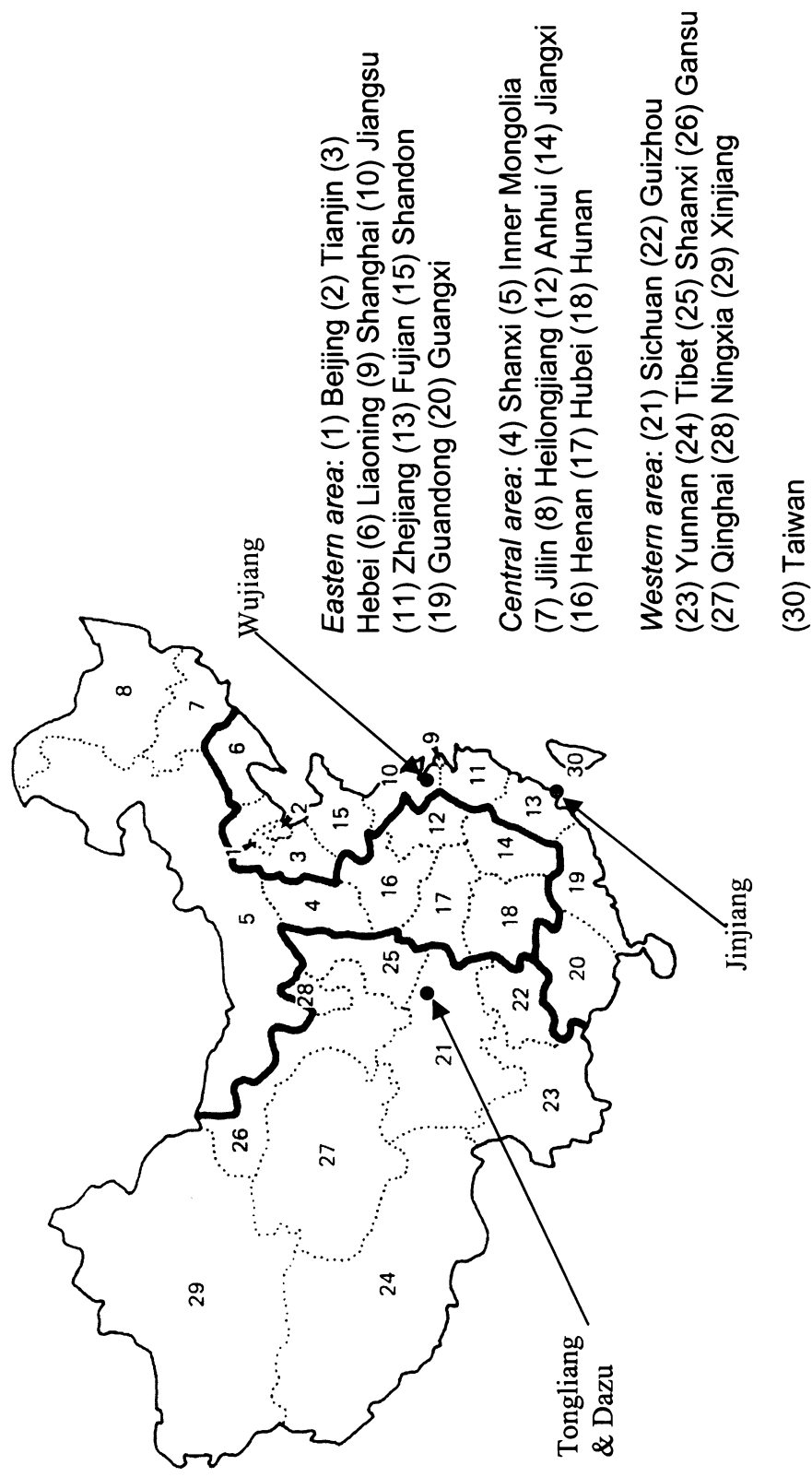


Figure 1.1 Division of geographic and economic regions in mainland China and the locations of three main research sites
Source: *Beijing Review*, No. 49 (December 8, 1986) p.21

development of rural enterprises, local economic conditions, local government policies and actions toward rural enterprises, geographic location, and other characteristics. In Chapter Eight, the criteria of selecting research sites for quantitative analysis will be discussed in detail. Appendix A provides a brief description of these three sites. Qualitative data were also collected from Yueyan City and Miluo City of Hunan Province, Taicang City of Jiangsu Province, Tong County of Beijing City, and other places in China.

1. The phenomenon of Chinese rural enterprises: Countryside surrounds the city, again.

For people who have the basic knowledge about the history of the Chinese Communist Party (CCP), the current situation in China can easily remind them of Mao Zedong's famous strategy for Chinese revolution: "Establishing base in rural areas, surrounding the city from rural areas, and finally take over the cities by military power." (Mao, Vol.5, 307) The success of Chinese revolution is characterized by taking the power in rural areas first and then with the support of rural people, winning over the whole nation. From a historical perspective, the achievement of the CCP during the revolutionary war period can be viewed as the first wave that the changes in rural areas finally overwhelming the whole nation. Now it comes the second wave of the same kind. The actions from countryside have been once more changing the nation fundamentally in 1980s and 1990s.

The rapid growth of Chinese rural enterprises since late 1970s', particularly after 1984, is in many ways a striking and unique phenomenon. This phenomenon is striking because of its unprecedented growth rate of averaging 30% between 1985-1990 and 40%

between 1990-1995 (FPD, 1996). They also played a critical role in Chinese economy. The industrial output and value of export by rural enterprises were over half of the nation's total in 1994 (Jiang et al., 1995:2). At the time when this study took place, it is the fastest growing and the most dynamic sector in the nation's economy. In 1998, facing the difficulties caused by the Asian financial crisis, the Chinese government struggled to assure 8% annual growth rate of the nation's economy. Nonetheless, the projected growth rate for rural enterprises was 18% (People's Daily (overseas edition), 9,26,1998, page 1). Table 1.1, 1.2, and 1.3 summarize the major statistics of Chinese rural enterprises and the national economy since early 70s.

This phenomenon is unique because it resembles few previous patterns of social and economic development. As what happened in the developed countries and is happening in many developing countries, economic development is always accompanied by rapid urbanization at the expense of rural areas. The situation in China before the economic reform followed this pattern as well (Han, 1993). Many practices adopted by the government extracted heavily on rural areas to support the development of urban areas, for instance, the monopoly purchase of agricultural products at the government regulated prices, excluding the economic activities in rural areas from the state planning except for a few major agricultural products, the tilted investment policy which was in favor of urban areas, and "the scissors difference (low purchase price for agricultural products and high sale price of industrial products to rural areas)." These practices created a dual economic structure in Chinese society that is characterized by a relatively modern urban economy with a backward rural economy (Dong, 1992; Sigurdson, 1977). In contrary, Chinese rural

enterprises present a pattern that the nation's economy grows while rural areas are developed.

Besides the exceptional business performance, Chinese rural enterprises are characterized by the popular participation of rural people at a massive scale and a broad coverage of geographic areas. This phenomenon is extraordinary in many aspects. In 1995, there are more than 150 million people employed by this section (See Table 1.1). Chinese rural enterprises exist almost everywhere in the nation. Their productions cover almost all industrial sectors except for energy (Liu, 1990). The massive scale of this phenomenon is the solid material base to assure its importance in China.

The phenomenon is striking also because the great progress is achieved by those commonly viewed as conservative rural people in backward rural areas. In popular view, rural people are less open to change and improvement. New ideas and innovations are difficult to penetrate into rural areas. Thus, rural people tend to be the barrier rather than a driving force of progress. During 80s, it was a popular topic among the reform intellectuals in China to complain about the vast countryside as the main reason that China lagged behind the Western nations. A once very popular TV series, *Heshang* (Su & Wang, 1988), is a good example in this regard. It contended that the Western ocean (blue) culture had to replace the agricultural tradition (the yellow culture) if China wanted to modernize itself. The burst of energy from Chinese peasants, either politically or economically, was considered as destructive rather than constructive (Wan, 1991). In the West, the contrast between rural and urban is also the synonym of traditional vs. modern (e.g., Inkeles, 1966).

The sharp contrast between the reality and people's perceptions and scholarly assertion makes the phenomenon even more striking.

As the consequence of economic success, Chinese rural enterprises become the main channels for rural people to extend their influences into the center of Chinese society. Traditionally, they were always at a marginal position in the society. Few would pay attention to what is happening in the countryside. Now, the impact of their success can even be experienced in the other side of the world as well. I will not be surprised if an American friend finds out that the toys distributed with kid meals at McDonald or Burger King are produced by Chinese rural enterprises. I am also not surprised if someone says that every American family more or less possesses something produced by Chinese rural enterprises.

Inter-regional disparity of development

It is necessary to point out that the success of Chinese rural enterprises is not equally impressive across the nation. Significant inter-regional disparity does exist. It is in fact a major characteristic of development. The seventh Five Year Plan of national economy and social development by the central government (1986-1990) divided China into three economic regions: the East, the Central, and the West (Yu & Huang, 1991:173). Figure 1.1 shows the geographic coverage of the three regions. For the development of rural enterprises, the eastern, or the coastal region as it is usually referred to, is the most advanced; the western region is the least advanced; and the central region in between is in a middle position. One example clearly indicates the dominant position of the East region in

this regard. In 1992, all 12 counties with output value of rural enterprises over 10 billion Renminbi Yuan were located in the coastal region. 159 out of the total 190 counties with the output value over two billion Renminbi Yuan were also in the coastal region. Those 159 counties accounted for 42.5% of total output value of rural enterprises (People's Daily, 5/29/1993). Table 1.4 compares some major economic indexes across the three regions.

The disparity in the development of rural enterprises is responsible for the major portion of increased economic gaps between these regions since the economic reform started. Singh et al. (1993) found that once the effect of the non-state industry is controlled, the growth gap between the East (excluding Guangdong and Fujian Provinces) and inland provinces disappears. The non-state industry were primarily rural enterprises. They further indicated that it was the size of the non-state sector that explained the regional disparity.

Several social and economic problem are aggravated by the development disparity between three regions. The inland provinces, especially those in the West region, are in shortage of capital and quality human resources. The rapid development in the coastal region aggravates the situation by increasing the outflow of capital and human resources from the central and the West regions. It weakens the capacity of economic development in the resource rich Central and West regions. The increasing economic gap also intensifies the tensions between the regions. The migrating population from the inland provinces to search work in the coastal region creates or intensifies various social and economic problems, for instance, heavy pressures on transportation systems, undermining government effort of family planning, and increasing crime rate.

To narrow the development gaps between the East, the Central, and the West regions, Chinese government has set forth a series policies to promote rural enterprises in the Central and West regions. For instance, in 1992, a working meeting was organized by the State Department to speed up the development. In March 1993, the State Department issued a special document for this purpose which promised financial support, encouraged the participation of the coastal region, and allowed more economic autonomy to the inland provinces (People's Daily, 3.1.1993).

A good sign was that the gaps in terms of growth rate of rural enterprises between these three regions reduced significantly in recent years. A government report shows that from 1986 to 1990, the average growth of sale for the East, the Central, and the West were 46.4%, 57.2%, and 54.6% respectively. In 1995, the output value of rural enterprises in the coastal region was 66.8% of the national total, down from the 1990 level of 74.5% (FPD, 1996). Nonetheless, the disparity will remain for a long time.

2. Describing the phenomenon: What are Chinese rural enterprises?

It is difficult to draw an accurate definition of Chinese rural enterprises. This is an extremely diversified phenomenon in many aspects, such as ownership, location, size, business type, and technological sophistication. Nonetheless, there are some key characters that can help people to form an overall picture of this phenomenon. The following discussion will be divided into three parts: the change of official term and implication, three key features that characterize rural enterprises, and manufacture enterprises as the main body of the phenomenon.

From "Shedui Qiye" to "Xiangzheng Qiye": Shift of official terms and implications.

In China, before 1983, rural enterprises were officially termed as "Shedui Qiye". Its verbatim English translation is "commune and brigade enterprises." This term reflected the fact that these enterprises were established, operated, managed, and owned by communes and brigades. The commune system was established throughout the countryside in 1957 and abolished in 1983 (Yu & Huang, 1991). It is a three-tier system and consists of three administration levels. Within the system, a commune is at the highest level, followed by brigade, and then production team. The main economic activities of a commune are agricultural production. Non-agricultural enterprises established within a commune have to serve this main purpose by provide capital, equipment, technical support, and other supply, such as fertilizer, to agricultural production.

After the abolition of commune system, the government started to use "Xiang-Zheng Qiye" in 1984 to describe rural enterprises and this official term is still in use today (Yu & Huang, 1991:548). It is difficult to find verbatim translation of "Xiang-Zheng Qiye" in English. Though "Zheng" can be easily translated as township, there is no proper word for "Xiang". A Xiang is an administrative equivalence of the previous commune in terms of its geographic boundary and officially its main economic activity is agricultural production. In the hierarchy of government system, a Xiang is at the same administrative level as Zheng. Both are at the lowest level of government system in China. Their officials are considered state officials. They are assigned to the posts by the higher administration at Xian (county) level and receive salaries from the state. The officials at levels below Xiang

and Zheng are not considered as state officials. On other aspects, a Xiang can be very different from a Zheng. First, the main economic activities of a Zheng do not include agriculture. A Zheng is usually the regional commercial center for one or several Xiangs. Second, a Xiang always has a much larger area than a Zheng does. A Zheng is always located within a Xiang, like a small island in a big lake. For a more advanced Xiang, it may have several Zhengs within its boundary. Third, the legal residents of a Zheng are not considered as agricultural population whereas the population of a Xiang is primarily agricultural. Because the development rural enterprises, many Xiangs have converted into Zheng recently since agricultural production was no longer their dominant economic activities.

The shift of official terms has important implications in defining rural enterprises. First, the new term Xiang-Zheng Qiye expands the scope of rural enterprises. The term Shedui Qiye only covers enterprises under the jurisdiction of commune. Enterprises under the jurisdiction of Zheng are not included. The new term covers both types of enterprises. Second, it provides a simpler cutoff point in classifying rural enterprises. The previous term Shedui Qiye includes two different administrative levels of government because a commune is at a higher level than a brigade. By using the new term, only one administrative level is included. By the new term, all enterprises that are established, managed, and owned by the people who represent the administrative entities below county level are rural enterprises. For instance, a company is considered as a rural enterprise if it is set up by a town, a xiang, a village, or by a family and individuals. However, a company set up by a county government should not be a rural enterprise.

This new term also reflects significant changes in government's perception regarding the relationship between agricultural and non-agricultural production in rural areas. Grain production used to be the primary activities of rural economy. To assure the supply of resources for achieving this goal, the government adopted a policy to suppress non-grain production and prevent any possible divert of resources. Thus, as a regional commercial center, the economic activity within a Zheng is clearly separated from that of a commune. This mentality was changed gradually as the policy of over-emphasizing grain production did not yield the expected outcome. People started to realize the deficiency of this policy. A Zheng as the regional center of commercial activities is recognized for its contribution. The shift of official terms can be viewed as a sign that government is promoting a more balanced and integrated rural economy.

Definition of Chinese rural enterprises.

Chinese rural enterprises are very difficult to be defined by few economic indicators, such as ownership, size, number of employee, location, and capital investment. For example, Indian government defines rural industry as enterprises in rural area (residents less than 10,000) with capital investment of each person not exceeding 15,000 rupee (Jing, 1993). This definition obviously does not work in China for it will only count very small scale businesses in remote areas as rural enterprises. The reality was that the capital investment of Chinese rural enterprises may range from several hundred to several million yuans, or even higher. The location of a rural enterprise could be in a remote rural area with several hundred residents, or in a medium-size city with a population of over half

a million people, or even in a mega-city like Shanghai with more than ten million people. Thus, to define Chinese rural enterprises, a broader perspective should be adopted in which both economical and sociological characters are considered.

The official term, "Xiang-Zheng Qiye," defines an administrative boundary for this phenomenon. In addition, according to my observation and discussion with people in China during the field study, three sets of concept appear to be important in defining Chinese rural enterprises. These concepts are rural vs. urban people, non-agricultural vs. agricultural enterprises, and commodity vs. self-sufficient production.

First, in essence, an enterprise is rural because the people involved are rural, not the location, size, and ownership. A key character of Chinese rural enterprises is that they are established and operated by rural people. The main body of labor force consists of rural people. It is more appropriate to use the type of person involved to characterize rural enterprises. Then the issue becomes how to define rural people in this study.

For this purpose, the term "rural" has to be based on the situations of Chinese society before 1978. In recent years, due to the rapid development of rural enterprises, agricultural production is no longer the dominant economic activity in many areas. Consequently, those areas have converted to city status. For the three main research sites, Jinjiang and Wujiang attained city status in 1992. When I was in Tongliang and Dazhu in 1995, there were plans to convert those two counties into city status but that did not materialize. Though Jinjiang and Wujiang had achieved city status, in both popular perception and government statistics, the enterprises established by people in those areas are still considered as rural enterprises. In this study, all places that did not have city status

before 1978 are considered as rural areas. Also, the suburbs of cities before 1978 are rural areas too. The resident status is the main criterion to classify people as rural or urban. One is considered as rural if he/she does not have a permanent city resident status. The first component of definition refers to all enterprises established by the people who do not have legal residential status in the pre-1978 urban areas in China.

Second, rural enterprises emerged as a new economic sector in rural areas are different from the traditional agricultural production. The term agricultural production refers to not only grain production, but also fishery, animal husbandry, forestry, and other sectors of primary goods production. The second component refers to enterprises that are not directly involved in producing primary agricultural goods. Therefore, a chicken farm, a fish farm, or a tree farm cannot be called as rural enterprises. But a factory that processes agricultural products is a rural enterprise, such as producing smoked or salted chicken, canned fish, or wood products.

Third, for an economic entity to be called a rural enterprise, it has to primarily engage in commodity production. This requirement is to differentiate rural enterprises from the traditional family sideline production activities in rural areas. Family sideline production has a long history in Chinese rural areas (Fei, 1989; Kong, 1993). It is an important income source for rural people. These activities, however, are mainly supplemental factors to the traditional self-sufficient agricultural production. People sell what is left after consumption and produce when they have time. Though family sideline production has an important impact on the development of rural enterprises, this type of activity should not be called rural enterprises. The third component refers to economic

entities that primarily engage in commodity production. Combining these three components plus the official term, a Chinese rural enterprise is defined as the following:

Definition: Chinese rural enterprises are the business entities established and operated by rural people, who either represent the interests of government agencies below county level or private interests, and are primarily engaged in non-agriculture commodity productions.

In terms of this definition, the concept of Chinese rural enterprises covers an extremely diversified body of business entities. For instance, there are at least six types of ownership that can be identified: A township owned, a village owned, joint-family ownership, single family ownership, joint-venture with overseas capital, mixed ownership (community and private jointly owned), and individually owned. The size of a company also varies significantly, ranging from two or three employees to several thousand labor workers. Also, Chinese rural enterprises cover a comprehensive range of production. For manufacturing enterprises, their production activities have significant presence in almost all major industrial sectors, except the energy sector (Han, 1993).

A narrower understanding: The manufacturing sector of rural enterprises.

Besides the conceptual definition, a narrower understanding of Chinese rural enterprises is worth of mentioning here. In government statistics, rural enterprises are classified into eight categories: agricultural, industrial, construction, transportation,

commercial, restaurant, tourist service, and others. However, in terms of popular perception, people mainly pay their attentions to the industrial sector of this phenomenon. To a significant extent, rural enterprises are in fact the synonymous of rural industrial enterprises. In all counties I visited, it is very natural for local officials to show me various manufacturing companies as rural enterprises. Occasionally, on our way to some factories, they would point at some hotels or department stores and tell me that those were set up and operated by rural people. But I could sense the marginal positions of these service businesses in their perceptions of rural enterprises. This impression was enhanced in my talk with the people of all life avenues in China.

The high visibility of the industrial sector of Chinese rural enterprises can be partly attributed to the fact that it is the largest sector according to many business indicators, such as output value, assets, profits and taxes (See table 1.1). Another important factor is that they have stronger rural connection than enterprises in other sectors do. Almost all manufacturing enterprises are located in their home communities where the entrepreneurs were born or lived for long time. They rely heavily on local communities for land, labor, initial capital investment, social network, government support, and in many cases raw materials and markets. They are the foundation of local economy in terms of revenue and employment opportunity. In comparison, for enterprises in other sectors, such as transportation, construction, and service, many of their business activities are conducted outside their home communities. They rely less on local resources. Apparently manufacturing enterprises have stronger ties with local communities and therefore are more "rural."

Because of these differences, the functions of rural enterprises to develop rural economy, absorb surplus agricultural labor at local communities, and avoid putting a heavy burden on urban centers are mainly fulfilled by manufacturing enterprises. Those are the main reasons that Chinese government would promote rural enterprises. For instance, a significant portion of migrating rural people in urban centers is in construction and service sectors. On one hand, those people are critical for urban development. Nonetheless, they also put a heavy pressure on Chinese urban centers where the infrastructures are severely underdeveloped. The labor force in industrial section is relatively less mobile than that in transportation and construction. Also, not like the people who work in transportation and construction, the workers of manufacturing enterprises stay in local communities and do not enter large urban centers.

The employment opportunities generated by manufacturing enterprises are much more than did other sectors combined. In 1995, the industrial sector employed 76 million people, whereas the employment in all other sectors are 53 million (FPD, 1996). In more advanced areas, manufacture enterprises absorb surplus agricultural labor from not only local community, but also other rural areas in China. It creates a large scale rural-to-rural migration that is rarely seen in the economic development of other countries. For instance, the companies of Jinjiang City of Fujian Province employed more than 200,000 migration workers from other rural areas in 1995 (materials distributed in The Seminar on Chinese Rural Development, Jinjiang City, Fujian Province; December, 1994). Shengze Township of Wujiang City, Jiangsu province also absorbed more than 30,000 people from other rural areas in 1995 (Figure provided by the officials of Shengze Township). Given

these features, it is understandable why people focus their attention on rural manufacture enterprises.

3. Understanding the phenomenon: Perspective of investigation.

The exceptional performance of Chinese rural enterprises and its growing importance in the nation's economical, social, and cultural systems has made this phenomenon an attractive target for scholarly inquiry. People try to understand the causes, driving forces, mechanisms of development, and conditions of success from various perspective and for either practical or theoretical concerns.

Some perspectives of investigation

One major perspective of investigation is the statism perspective in which the focus is on how the actions of government, through its policy and administrative power, affect or determine the course of development. This is a popular perspective in China, particularly in the official explanation of success that attribute mainly to the supportive policy of the government (e.g., Yu & Huang, 1991). The works done by the people outside China show the impact of this perspective as well. For instance, rural enterprises are considered as the results of the decentralization policy by the government before 1978 and reform efforts thereafter (Sigurdson, 1977; Zhu, 1991; Gray, 1988; Odgaard, 1992). A different expression of the statism perspective is to emphasize the personal influence of Deng Xiaoping. Deng is described as the Chief Designer of Reform in China and widely

regarded as the mastermind of Chinese reform (China Quarterly, 135:409; 1993).

Naturally, people tend to ascribe to Deng any achievement in the process of reform.

The second major perspective focuses on the role of economic factors to explain the phenomenon. Economical explanation is underpinned by a fundamental assumption that human beings act rationally. It assumes that the human actions are determined by the rational calculation of loss and gain and follow the direction of maximizing gain and minimizing loss. Given this assumption, this perspective focuses on the economic opportunities in the society. For instance, the studies that take this perspective identify a partially reformed economy (Chen et al., 1994, in Findlay et al.), the pressure to transfer surplus agricultural labor, and limited opportunities in agricultural production (Dong, 1992; Lu, 1988; Du, 1990) as the causes of the development of Chinese rural enterprises.

Cultural explanation is the third perspective. It focuses on the impact of values, attitudes, and behavioral norms in a society to explain economic development. For instance, the tradition of commercial activities and the sense of commodity production are viewed as two important factors that explain the lead of coastal areas in developing rural enterprises (Gu & Sheng, 1989:21). The experience of modern commercial activities as the result of the colonial intrusion by the West is listed as an important factor as well. In terms of cultural perspective, the slow economic development of inland provinces in China is attributed to the lack of entrepreneurial spirit of local people (Wang & Bai, 1991; Xu, 1992; Ho, 1994).

The list of these three major perspectives is by no means exhaustive. Nonetheless, they account for a significant portion of study on changes in a society. The research

findings by the three perspectives share a common character that the success of rural enterprises is viewed as determined by the factors over which people had little control. The main body of this phenomenon, 800 million rural people, are excluded from the center of analysis. In fact, very few studies emphasized the critical contribution of rural people. This is a significant weakness in the investigation of this phenomenon.

It is understandable that when investigating social and economic issues in socialist countries, the Western scholars tend to emphasize the role of state. For a long period, the socialist governments virtually controlled almost all activities in their societies. The actions of governments are largely responsible for whatever happened in their countries, good or bad. Chinese government was no exception in this regard before the economic reform in 1978. The situation in China has changed substantially since then. Particularly in rural areas, the actions of government were no longer the all-power factors to determine the course of development. In most cases, the changes in rural areas progressed in a manner that rural people took the initiative and the government followed. For instance, the widely publicized Household Responsibility System (HRS) was first initiated in 1979 by a group of peasants in Xiaogang Village of Fengyang County, Anhui Province at a great political risk (People's Daily, Xu, 1992). The role of Chinese government is mainly to reduce the political barriers for the spontaneous development which has been proved to have positive effects on rural economy, particularly on agricultural production. Given the conditions after the economic reform, it is no longer legitimate to view the role of state as the foremost important factor in understanding changes in Chinese society.

The importance of rural people's initiative was particularly evident in the development of rural enterprises. Although most of the changes in rural areas were initiated and promoted by rural people themselves, Chinese officials rarely admitted in public that they should not take credits for the achievements. The development of Chinese rural enterprises is an exception in this regard. In a meeting with a Yugoslav delegate, Deng Xiaoping indicates: "Generally speaking, our rural reforms have proceeded very fast, and farmers have been enthusiastic. What took us by surprise completely was the development of township and village industries. The diversity of production, commodity economy, and all sorts of small enterprises boomed in the countryside, as if a strange army appeared suddenly from nowhere. This is not the achievement of our central government. Every year township and village industries achieved 20 percent growth . . . This was not something I had thought about. Nor had the other comrades. This surprised us." (People's Daily, June 13, 1987).

By overlooking the initiative of rural people, the economic and cultural explanations can only reveal disintegrated information that is marginal to understand the phenomenon. The failure of neoclassic two-sector theory in explaining the economic development in developing countries is a good example that neglecting people factor can significantly discount the explanatory power of an economics theory (Gillis et al., 1992). For in reality, people often don't act rationally. Opportunity for economic gain is not sufficient to trigger people to act. The over-emphasis on market force to explain economic development is criticized by others as well (e.g., White, 1988).

The significant intra-regional variance in the development of rural enterprises indicates the weakness of cultural explanation. In the advanced areas, for instance, the Changjiang Delta region, there are several counties are relatively backward compared to others, e.g., Wujin County in Changzhou City has a significant lead over other counties of that city. Within one county, some townships are more advanced than others, such as in the case of Yinglin Town and Neiken Town in Jinjiang City. Even at village level, two adjacent villages can show a significant gap in the development of rural enterprises. This type of intra-regional variance also exists in generally backward inland areas.

It is commonly agreed with that the opportunities unveiled by the economic reform in China contribute significantly to the economic growth of the nation. After all, the economic miracle is created by people. The author believes that to understand the economic miracle in China, one has to understand Chinese rural enterprises. To understand rural enterprises, one has to understand the people who are the main body of this miracle. It is through the effort of people, Chinese rural enterprises become successful stories today.

Perspective of this study: The actions of rural entrepreneurs as the focal point.

A balanced perspective will be adopted in this study in which the crucial factors of changes will be investigated simultaneously. While admitting the importance of social, economical, political, and cultural factors, people factors will be analyzed in depth. All those factors will be investigated in terms how they affect people's behavior. The basic assumption would be that people's behavior produces the results and people's behavior is jointly affected by their personal characteristics and environmental conditions.

For understanding Chinese rural enterprises, it is important to analyze the impacts of external conditions on people's behavior that are relevant to the development, such as government policy, market condition, and cultural influence. Nonetheless, opportunities will not become reality automatically. People have to take proper actions to turn potentials into reality. Furthermore, it is unrealistic to expect that people would automatically act upon opportunities whenever they are available. Without the knowledge why people act, a comprehensive understanding of Chinese rural enterprises cannot be achieved.

This study acknowledges that Chinese rural people are the main forces behind the rapid development of rural enterprises. Their behavior will be the focal point of investigation. It will analyze what opportunities existed for Chinese rural people to engage in non-agricultural production in rural areas; what obstacle they had to overcome to operate their enterprises; how they organized and cultivated various opportunities to their favor; and why they wanted and were able to do so. I would try to explain why and how rural enterprises can be developed to such a massive scale; attract the great popular participation; and cover almost all industrial sectors in the nation's economy. It will also be of great value to understand why and how modern industrial production can achieve substantial development in so-called conservative and backward rural areas.

Among people who are involved in rural enterprises, the rural entrepreneurs or the top managers consist of an important group that deserves special attention. In essence, the development of rural enterprises is a process to create business activities that were not existing previously. These are by definition entrepreneurial activities. People who engage in these activities are by definition entrepreneurs (Gibb, 1987; Hisrich, 1990; Soslow,

1966). For understanding the consequence of this type of activities, there is no other group of people whose activities carry greater importance than those of entrepreneurs. Mao Zedong indicated: "After a correct guideline is laid out, the cadre will be the determining factor for success." (Mao, Vol.2, 493). Once all necessary conditions are available, it is up to rural entrepreneurs to convert the potential into reality. They have to be the main targets of investigation.

To analyze how the behavior of rural entrepreneurs is affected by various factors, this study adopts a conceptual framework based on two theoretic propositions. The first is the commonly acknowledged principle that human behavior and performance is determined by the joint effect of personal and environmental factors (e.g., Fielder, 1967; Parson, 1968; Lewin, 1935). The other is that entrepreneurship is critical to business success and economic development (McClelland, 1961). The analysis will focus on the interactive process of motivation, ability, and environmental factors in affecting the behavior and behavioral outcomes of rural entrepreneurs. Chapter 3 will address these conceptual issues.

It is necessary to point out that the emphasis on people factors is by no means to discount the influences of state, economic system, and cultural factors. In the balanced perspective of analysis, these factors form a part of macro social and economical environment in which Chinese rural enterprises operate. Their roles will be analyzed through their impacts on the behavior of rural entrepreneurs.

4. Description of the study.

The process of data collection

Data on social, political, economical, cultural, and individual variables that are relevant to the development of Chinese rural enterprises were collected in this study. Specifically, the information was collected on the historical process of development, shifts of CCP policy priority, adjustment of government policy, impacts of major historical events, the cultural tradition, characters of Chinese economy, market conditions, characters of local business environment, collective characteristics of Chinese people in relation to entrepreneurial activities, and individual characters of rural entrepreneurs that may affect the operation of their businesses.

The main body of data was collected during an extensive field research in China from July 1994 to June 1995. The field work was supported by the local governments, many rural entrepreneurs, and other relevant people. There were two major parts of the field work in China: qualitative and quantitative. The quantitative part is a questionnaire survey to the rural entrepreneurs. A series of seminars on management science was given to rural entrepreneurs in Jinjiang City, Wujiang City, and Tongliang and Dazu Counties. During each seminar, the participants were asked to fill out an entrepreneurial performance questionnaire. The information collected in quantitative research includes need for achievement, intelligence of individual entrepreneurs, environmental conditions that were important to business operation, freedom in making business decisions, and business performance. The qualitative part of field research was conducted in all places. It consists

of extensive person-to-person interview and bibliographic research. People interviewed include rural entrepreneurs, ordinary labor workers, local government officials, central and provincial government officials, relevant scholars, and other ordinary people. Interviews were arranged through various channels, such as local government, friends, and opportunities during conferences.

The interview with rural entrepreneurs repeated the major themes in survey research. It also probes a wide range of topics, for instance, the personal background information, childhood experience, experiences in dealing with various operational issues, relations with local governments, and their business philosophy. For local officials, the interview was focused on the role of local government in the development of rural enterprises in their counties or cities and specific actions they had taken to promote the development. They also helped me to understand and verify the information provided by rural entrepreneurs. The interview with labor workers dealt with workers attitudes toward an entrepreneur, their evaluations of entrepreneurs' motivation, ability, and management styles, and their plans for the future. The information provided by central and provincial government officials is helpful in understanding the mechanism that higher level government affect the development of rural enterprises. The sources for bibliographic information include newspaper, local government documents, government publication, published research, and company documents and publications.

Generally, people were very open to the questions I asked. I even obtained satisfactory responses to some sensitive questions. They were very cooperative in providing the information about themselves, other people, their communities, and the

society. A lot of information was obtained without asking because people thought it might be useful and in fact it was. Talking with people who were involved or closely associated with rural enterprises gave me a very optimistic feeling toward the future of China. It was a very enjoyable process. Rarely I had any frustration.

Plan of writing

This study attempts to address both theoretical and practical issues that are relevant to economic development in general and Chinese rural enterprises in specific. The previous works on human behavior and economic development will serve as the conceptual framework and be tested in this study. The analysis of rural enterprises will be revolved around the historical background, the impacts of macro social, economical, political, and cultural factors, and the impacts of micro external conditions and individual characteristics of rural entrepreneurs. Then quantitative data will be analyzed to check the findings from qualitative data and test hypotheses derived from the conceptual analysis.

In Chapter two, a brief historical review of Chinese rural enterprises will be presented. Though this phenomenon began to attract people's attention in early 80s, its roots can be traced back to several decades ago. To some extent, it is an integrated part of CCP history. The review will start from the guerrilla base period of the CCP, about 70 years ago, and focus on the relationship between the practices of the CCP and the development of non-agricultural production in rural China.

Chapter Three is the discussion of relevant conceptual issues. This study focuses on the actions of grassroots level people in understanding changes in a society. Therefore, the

first part of discussion is about the conceptual base of this approach. Second, as mentioned earlier, a balanced perspective will be adopted which focuses on the impacts of social, economical, political, cultural, and individual factors on the actions of rural entrepreneurs. In terms of this perspective, two theoretic propositions are particularly relevant. One is the principle that human behavior and behavioral outcomes are determined by the joint effect of personal and environmental factors. The other is the proposition that entrepreneurship and achievement motive are critical to business success and economic development. The traditional wisdom in Chinese culture regarding the impacts of both personal and environmental factors on human behavior will be introduced in discussion as well. The work of Mao Zedong is another important source of wisdom. Then the conceptual relevance of the major factors investigated to the central theme of this study will be further illustrated.

The impact of macro conditions on entrepreneurial behavior are discussed in Chapter Four and Five. In Chapter Four, the focus is on the impact of macro political, social, cultural, and psychological factors. First, the permissive political climate after the economic reform is a pre-condition of development. It is the result that the CCP changed its policy priority from the class struggle to economic development. Regarding the development of rural enterprises, the discussion focuses on the implications of three major policy adjustments in the rural reform. They are policies of household responsibility system, specialized household, and commercial trading activities. Second, the readiness of Chinese people for entrepreneurial activities is discussed in terms of Chinese cultural tradition and CCP's educational effort. The analysis suggests that collectively, Chinese

people possess several psychological characters that are critical to entrepreneurial success. Third, due to CCP's actions, a rural-urban dualism structure was formed in the society. It was both barrier and opportunity for the development of rural non-agriculture development. At last, the societal conditions for popular participation in entrepreneurial activities are discussed.

In Chapter Five, first, the demand and supply conditions of the Chinese market in late 70s and early 80s will be analyzed. Second, given the market conditions, the discussion switches to the strengths and weaknesses of major potential contenders in the market. Those contenders included rural enterprises, state-owned enterprises, and foreign companies. The discussion shows that the success of Chinese rural enterprises under the given market conditions can be partially explained by its competitive advantages and the weakness of other contenders. The third topic is about the material base of rural non-agricultural development. It focuses on the impact of a comprehensive industrial base that China has established under management of the CCP.

Chapter Six and Seven will focus on micro level variables. The question to be answered is that given the opportunities to participate in entrepreneurial activities in rural areas, how and why individuals take on and persist in certain actions that turn potential into reality. Various individual cases will be presented to show that differences in the personal characters of rural entrepreneurs are related to the different business outcomes of their companies. The discussion of environmental factors continues from Chapter Four and Five but at a micro level, with an emphasis on the immediate business environment and its relation to business operation.

Chapter Six is devoted to the role of motive. It is the issue whether a person has desires to take on and persist in entrepreneurial activities. The first part is to analyze the difficulties that rural entrepreneurs would encounter in their business operation. Then the discussion is to show how need for achievement (n Ach) affects entrepreneurial performance in an environment where opportunities and difficulties co-existed. The stories about successful and less successful entrepreneurs demonstrate that people with different level of n Ach behave differently in pursuing opportunities and deal with difficulties. Their differences in behavior are also reflected in their business performance. Those who showed more achievement-related behavior tended to be more successful.

Chapter Seven is on ability issues in entrepreneurial activities. First, the threshold requirements for being a Chinese rural entrepreneur are discussed. Those requirements to some extent explain why rural enterprises have to be rural. The second part of discussion is on abilities that differentiate successful and less successful entrepreneurs. At the end, the phenomenon of "A small boat is easy to be turned around" in the development of Chinese rural enterprises is presented. Then its relation to the ability of rural entrepreneurs is discussed.

In Chapter Eight, the discussion shifts to quantitative analysis based on the survey data collected from the three main research sites. The quantitative analysis is complimentary to the qualitative analysis. Issues discussed in qualitative analyses will be tested quantitatively. First, the conceptual and methodological issues in survey research design will be discussed. Then hypotheses are derived in terms of the conceptual framework and qualitative evidence. After that, the findings will be presented and

hypotheses will be tested, followed by the discussion regarding their theoretical and practical implications.

Chapter Nine addresses issues that are important to understand Chinese rural enterprises or societal change in general but are not discussed thoroughly in previous chapters. These issues include the reasons that Chinese government adopted a permissive attitude toward rural enterprises, the impact of Mao Zedong's legacy that affect the psychological state of Chinese people and the structure of Chinese society, the test of propositions in "Achieving Society," and the relation between local government policy and the inter-regional development gap.

Chapter Ten is the conclusion part. First, the findings will be synthesized to address the main theme of this study. That is, a societal change is the product by the joint impact of societal conditions, individual capability, and motive. The development of Chinese rural enterprises and the growth of China's economy follow this rule as well. Second, the theoretic and methodological implications of the findings will be discussed, followed by the practical implications. Then the writing is completed by a brief discussion on the future of rural enterprises.

Information on the three main research sites will be presented in Appendix A which summarizes the distinctive features of these three sites in terms of their social, economic, cultural, and political characteristics. A brief comparison of these three site on those aspects will also be presented. Appendix B is the survey questionnaire used in this study.

Table 1.1 Basic statistics of Chinese rural enterprises (1976-1995)*

	No. of companies	No. of employees	Total output value	Industrial output value	Taxes	Profits
1976	1.12m		27.23b	24.35b		
1978	1.52m	28.27m	49.31b	38.53b	2.22b	8.81b
1979	1.48m	29.09m	54.84b	52.35b	2.26b	10.45b
1980	1.42m	29.99m	65.69b	50.94b	2.57b	11.84b
1981	1.33m	29.69m	74.53b	57.93b	3.43b	11.28b
1982	1.36m	31.12m	85.31b	64.60b	4.47b	11.55b
1983	1.34m	32.34m	101.68b	75.71b	5.89b	11.78b
1984	6.07m	52.08m	170.99b	124.54b	9.06b	27.76b
1985	12.23m	69.79m	272.84b	182.72b	13.74b	28.74b
1986	15.15m	79.37m	354.09b	241.34b	17.67b	32.01b
1987	17.50m	88.05m	476.43b	324.39b	22.18b	40.53b
1988	18.88m	95.46m	649.57b	452.94b	31.03b	55.00b
1989	18.68m	93.67m	742.84b	524.41b		
1990	18.50m	92.62m	846.16b	605.03b	34.40b	59.10b
1991	19.09m	96.09m	1162.17b	870.86b	41.90b	65.20b
1992	20.79m	105.81m	1797.54b	1365.54b	60.50b	96.80b
1993	24.53m	123.45m	3154.07b	2344.66b	105.80b	177.10b
1994	24.95m	120.17m			159.30b	228.40b
1995	22.03m	128.61m			205.90b	530.90b
Average growth (1978-1983)	-2%	3%	16%	15%	22%	6%
Average growth (1984-1988)	37%	17%	40%	31%	37%	20%
Average growth (1990-1995)	4%	7%	56% (1990-1993)	57% (1990-1993)	44%	60%

Sources: 1) Rural Enterprise Statistics and Analysis--1995. pp. 2-1 to 2-3.
2) Rural enterprises in Contemporary China. pp. 560
3) Chinese Rural Enterprises Chronicle, 1989. pp. 77.
4) Statistical Yearbook of China, 1994. pp. 361-363.

Notes: * data before 1983 covers only collective enterprises.
The No. of companies and the No. of employees are in million. Output value, industrial output value, taxes, and profits are in billion yuans.

Table 1.2 Rural enterprises value added (Total and industry)

	Total value added	Industrial value added
1985	77.2b	51.8b
1990	250.4b	185.5b
1991	297.2b	222.7b
1992	448.5b	335.0b
1993	800.7b	593.6b
1994	1092.8b	890.1b
1995	1459.5b	1080.4b
Average growth (1990-1995)	44%	44%

Sources: Rural Enterprise Statistics and Analysis--1995. pp. 2-1 to 2-3.

Notes: Total value added and industrial value added are in billion yuans.

Table 1.3. GNP (Gross National Product), national industrial output value, and industrial output value of state owned enterprises (1978-1993).

	GNP	National industrial output value	Industrial output value of state owned enterprises
1978	358.8b	423.7b	328.9b
1980	447.0b	515.4b	391.6b
1983		646.1b	473.9b
1984		761.7b	526.3b
1985	855.8b	971.6b	630.2b
1986		1119.4b	697.1b
1987		1381.3b	825.0b
1988		1822.4b	1035.1b
1989		2201.7b	1234.3b
1990	1769.5b	2392.4b	1306.4b
1991		2824.8b	1495.5b
1992	2437.9b	3706.6b	1782.4b
1993	3134.2b	5269.2b	2272.5b
Average growth (1978-1984)			
Average growth (1984-1988)		25%	18%
Average growth (1990-1993)		30%	20%

Source: Statistical Yearbook of China, 1994. pp. 20-21, 375.

Notes: GNP, the national industrial output, and industrial output of state owned enterprises are in billion yuans.

Table 1.4 The characters of Chinese rural enterprises in the Eastern, Central, and Western regions (1985-1995) .

Region	Index	1985	1990	1995	Growth from 1990 to 1985	Growth from 1995 to 1990
The eastern region	No. of companies	4.22m	6.74m	8.38m	59.72%	24.33%
	No. of employees	35.74m	45.69m	63.32m	27.84%	38.59%
	Total value added	49.5b	165.5b	816.7b	234.34%	393.47%
	Industrial value added	36.4b	136.1b	686.1b	273.90%	404.11%
	Taxes	9.9b	23.4b	127.6b	136.36%	445.30%
	Profits	20.8b	36.1b	207.5b	73.56%	474.79%
The central region	No. of companies	6.51m	9.53m	11.11m	46.39%	16.58%
	No. of employees	28.52m	39.02m	54.48m	36.82%	39.62%
	Total value added	24.2b	74.9b	563.0b	221.90%	651.67%
	Industrial value added	13.7b	44.1b	354.3b	192.81%	703.40%
	Taxes	2.7b	9.2b	65.7b	240.74%	240.74%
	Profits	5.9b	21.3b	139.3b	261.02%	261.02%
The western region	No. of companies	1.49m	2.46m	2.53m	65.10%	2.85%
	No. of employees	5.52m	7.91m	10.81m	43.30%	36.66%
	Total value added	3.5b	10.0b	79.9b	185.71%	699.00%
	Industrial value added	1.7b	5.3b	39.9b	211.76%	652.83%
	Taxes	0.4b	1.8b	12.6b	350.00%	600.00%
	Profits	0.8b	3.4b	22.9b	325.00%	573.53%

Sources: Rural Enterprise Statistics and Analysis--1995. pp. 2-45 to 2-46.

Notes: No. of companies and No. of employees are in million. Total value added, industrial value added, taxes, and profits are in billion yuans.

Chapter Two

A historical review of Chinese rural enterprises:

CCP's policy and practice

It has not been long that people treated Chinese rural enterprises seriously. This phenomenon started to draw popular attention in mid-80s, less than ten years from 1994 when I conducted the field study. By common sense, however, no major changes in a society can happen overnight. Although this phenomenon caught people by surprise, there is a long developmental process preceding the current situation. As a social and economical phenomenon under the leadership of the Chinese Communist Party (CCP), to a significant degree, the development of Chinese rural enterprise is an integrated part of the Party's history. The historical root of this phenomenon can be traced back to the Party's effort in rural non-agricultural production during the guerrilla base period, as early as 1920s.

Guerrilla base period (1928-1949)

The CCP has a long tradition to organize non-agricultural production in rural areas far away from major urban centers. This is an inevitable result of its military and political strategies to win the revolution. Mao Zedong contended that the CCP should establish bases in rural areas to surround cities and finally win over the nation. Guided by

this strategy, Mao and his comrades made great efforts to establish guerrilla bases in the vast countryside whenever an opportunity occurred.

Until the late period of the Liberation War (1946-1949), guerrilla bases were primarily located in poor and backward rural areas where the military presence of hostile forces was not strong. These bases were normally without major urban centers within their boundaries and were surrounded by the hostile forces. The economic blockade backed by superior military power was the common approach by the enemies to destroy the guerrilla bases and the Communist Party. As result, people in guerrilla bases were almost excluded from access to various external resources. External assistance to the CCP was nominal. Under that circumstance, the CCP had to primarily depend on resources within the bases for survival and to support its war effort.

On the other hand, the economical strength of guerrilla bases was weak because they were remote and backwards areas to begin with. The situations were further deteriorated because of the war damages. For instance, CCP's first guerrilla base, Jinggang Mountain Base, had a population of only 2000 with an annual grain output less than half million kilograms (Mao, 1928b). At one time, the Red Army in that base had 5000 people. Obviously, it was virtually impossible to depend on the base resources. The Red Army was frequently forced to fight under extremely difficult conditions. When winter neared, winter clothes were nowhere to be found. There were guidelines by the Party that soldiers' living standard should be higher than that of ordinary peasants and workers (Mao, 1928b:64). But the reality was the opposite. Given that Chinese peasants and workers' living standards were extremely low at that time, one can imagine how low

was the standard for the Red Army soldiers. As Mao indicated in one of his early essay, the difficulties frequently reached a point of extreme (Mao, 1928a:).

Having experienced the negative impacts of those difficulties, from very early on, Mao Zedong recognized the importance of economic issues in the Chinese revolution. A base economy with sufficient supplying capacity was listed as a critical factor for the survival and development of guerrilla bases (Mao, 1928b). In CCP's effort of developing base economy, the primary concern is on agriculture. This emphasis is understandable because food supply is the most critical. At meantime, non-agricultural production was an important element as well, particularly the cloth related production, such as cotton waving, knitting, and clothing. Because guerrilla bases were all in rural areas, to promote agriculture simply enhanced the tradition. The development of non-agricultural production in remote and backward rural areas was a fairly new phenomenon for people in base areas. For instance, in some base areas, local people never had any experience of cotton weaving (Lu, 1987; Kong, 1993). Some industrial production facilities never existed before being introduced by the CCP, such as printing, chemical, and communication equipment.

Started in the first revolutionary base, the Jinggang Mountain Base (1927-1928), various production efforts were organized to improve the supplying situation to the Red Army. For instance, a clothing factory and a repair shop for military equipment were set up inside the base (Mao, 1928). During the Central Revolutionary Base period (1930-1934), rural non-agricultural production reached a high point. This base was located in the border areas of Jiangxi and Fujian Provinces, had a population over two and half

million people and an area of fifty thousand square kilometers (Jin, 1996). Its economy was mainly subsistence agriculture. The non-agricultural production in modern term was virtually non-existent (Kong,1993).

To supply the Red Army was a major goal of the Party's production effort in this base. At meantime, the CCP started a serious effort to establish its own government system. Thus, other concerns, such as political implication of production effort, were addressed as well. Popular support was a critical source of strength for the CCP. A critical issue to win popular support is that people must have the hope for improving their lives and see the evidence that the goal is within their reach. Although Mao was a very idealistic person, he clearly understood this practical issue. "Pay attention to people's living" is an issue he emphasized greatly (Mao, 1934). The development of base economy was considered as critical to strengthen the CCP militarily, politically, economically, and culturally (Kong, 1993).

Reflecting those concerns, the production activities in the base areas were diversified in many respects. They are briefly summarized by Kong (1993). First, the base government set up many government operated companies to produce simple military equipment, clothes, paper, communication supplies, and medical materials. There were also several textile mills to produce towel, sock, and clothing materials. About 500 workers were employed by those mills. Second, cooperative companies (similar to the collectively owned businesses) were developed. In 1934, there were 176 co-op production organizations with 32,761 members inside the base. Third, private capital was encouraged as well in developing the base economy. The base government issued "Industrial and

commercial investment guidelines" to regulate the private sector. As long as business people would not do political harm, they were encouraged to invest in any kind of business and their interests were protected.

The mass movement is a familiar weapon for the CCP to achieve its political goals. The Party also used this weapon in economic activities. When there was an urgent need of producing a particular good in a large quantity, massive popular participation was initiated. For instance, the economic blockage by the enemy caused severe salt shortage within the base. To solve this problem, the base government organized "Salt Producing Movement" to mobilize everyone making salt. About 581 salt workshops were established as result. There were also more than one thousand family shops. This movement significantly relieved the salt shortage.

CCP's practice to develop non-agricultural production continued during Anti-Japanese War (1938-1945). The Shangannin border area, where the CCP headquartered from 1937 to 1947 after the Long March, used to be an extremely poor region. No modern industry existed previously. The situation changed significantly due to CCP's effort. For instance, there were ten government operated companies in 1939, ninety-seven in 1941, 82 in 1943 after consolidation of existing companies. Among those 82 companies, 31% were in textile industry, 31% in coal mining, 9% are paper mills, 6% machinery factories, 5% printing houses, 4% chemical products, 3% leather producing, and the rest 11% are edible oil and salt workshop, iron mining, etc. As in the central base, the cooperative and private capital in non-agricultural production gained significant growth in the border area as well. For instance, there were 50 co-op production

organizations in 1942. They produced cloth material, sock, towels, edible oil, blankets, pottery, wheat flour, etc. In 1944, co-ops increased to 233. As of private capital, in 1939, there were 39 private textile mills. This number increased to 50 in 1943.

The co-existence of government operated, cooperative, and private businesses was a unique feature of CCP's effort to develop base economy. This phenomenon could be observed in all base areas. In the Huazhong base, the base government helped private business by providing them with raw materials, capital, and market channels (Ma, 1987). In the Eyu border areas, the base government encouraged outside private capitals to invest inside the base. (Kong, 1987). These practices show the pragmatic side of the CCP in dealing with the reality. For private capital is completely incompatible with the communist ideology. Nonetheless, to strengthen the base economy was a much higher priority than to maintain ideological purity during the wartime. The CCP adopted policies to encourage any activities that were helpful to base economy (Xue & Zhang, 1987). Even in government operated production efforts, various incentive plans were adopted that used material reward to stimulate individuals. For instance, the principle of "balancing public and private interests, public first and individual second" (e.g., Yu, 1987; Zhang, 1987; Zhou, 1987). Guided by that principle, individuals could keep a certain portion of products as the reward to his/her contribution.

In terms of massive popular participation in non-agricultural production during this period, the Weaving and Knitting Movement is the most publicized. The initial purpose of this movement was to solve the severe shortage of clothes. In some bases, this was the number one problem, more critical than food (Lu, 1987). At that time, textile

products in the China market were either imported or produced in few urban centers, such as Shanghai and Qindao. Virtually no modern textile industry existed inside the bases. Therefore, the economic blockade had a severe impact on the supply of clothing materials. To solve this problem within the bases, the CCP adopted the familiar idea of mass movement. The weaving and knitting movement had very broad popular participant. For instance, in the Jinjiluyu border area, three quarter of woman labor force participated. In the Shangdong base, by the end of 1945, there were one million weaving reels and fifteen thousand knitting machines in actions (Kong, 1993). In the Shanggannin border area, even the highest ranked CCP official were involved, such as Zhu De, Zhou Enlai, and Ren Bishi. Large scale application of primitive technology is a distinctive feature of the movement. It revived the tradition of manual textile production in Chinese rural areas. The technology used had a history of about one thousand years old. Naturally, individual productivity was very low by modern standard. This is a practical reason that mass participation was needed to assure the quantity of production.

The base governments took various actions to promote production in this movement, such as allowing tax break, supplying materials, providing technical training, and market channels. In some cases, base governments needed to absorb the loss to assure that people could make profits (Lu, 1987). Because of the encouragement and help from the base governments, in the areas where weaving and knitting were traditions, the production spread to almost every family. In areas with no such traditions, people were organized to learn weaving and knitting. The production grew very quickly. For instance, in Huabei base, there were no weaving and knitting traditions. The base government

organized the refugees, who fled from areas occupied by Japanese troop and had experiences, to weave and knit. They were given capital, equipment, and materials. The government also asked them to train local people. As result, the number of knitting machines increased to thirty thousand sets from none in one year (Lu, 1987). In the Shanggannin border area, the actions of base government also helped to develop production in areas with no such traditions (Kong, 1993). CCP's effort to promote non-agricultural production in base areas proved very successful. A substantial proportion of demand for clothing, by both military and civilian, could be supplied within bases. In some bases, there were even surpluses (Kong, 1987).

There are some striking similarities between the development of Chinese rural enterprises after the economic reform and non-agricultural production during guerrilla base period. First, the efforts to develop base economy were made under a circumstance that people were denied access to urban resources due to the economic blockade by hostile forces. They had to rely on the resources inside the base areas to support their struggles for achieving political goals. Rural enterprises were also developed in a similar situation. After 1958, a series of government policy adjustments virtually excluded rural people from the modern economic development concentrated in the urban centers. They were also denied the formal channels to access various urban resources. For instance, it is almost impossible for rural people to obtain permanent resident status in major urban centers. Without such a status, people could not get jobs, food, houses, and other living necessity (Zhou, 1996; Han, 1993b). Thus, to improve their living standards, rural people have to primarily rely on the resources in rural areas and develop local economy. To some

extent, it is a forced choice to develop non-agricultural production in rural areas in both cases.

Second, the CCP showed pragmatic attitudes in developing base economy. Its effort was dominated by pragmatic rather than ideological concerns. As Mao summarized, the goal was to "Developing the economy and assuring the supply." (Mao, 1942b). To achieve this goal, the Party encouraged and protected all forms of production efforts, such as government operated, cooperative, and private businesses. Individual interests were protected and material reward was used to stimulate the enthusiasm of production (Zhu, 1987). Driven by market demand and utilizing market opportunities were the distinctive characters of production movement (Gou, 1987; Ma, 1988). The pragmatic attitude also manifested in that primitive technology was used in a large scale because it fit the conditions of the time. On the other hand, the similar pragmatic attitudes of the central government is a distinctive characteristics in the development of Chinese rural enterprises.

Third, massive popular participation and using labor to substitute for capital and technology are the strategies widely applied in developing base economy and rural enterprises. These are two related features. For rural areas are relatively backward, short of capital and modern technology. To start production effort, people had to rely on manual labor rather than capital and technology intensive approach. On the other hand, the demand was huge. It called for mass participation to assure the quantity of supply. Fourth, because the bases were scattered at different locations and surrounded by hostile forces, it was impossible for the Party center to directly control the production efforts in

individual bases. The power of organizing production and setting relevant policies were at the hand of each base government. Various policies and regulations were set by different base governments to guide the production activities within their own bases. This feature is recognized by others as well (e.g., Gray, 1988). On the other hand, decentralized decision making is an important feature in the development of Chinese rural enterprises as well. Local governments enjoyed a fairly great amount of autonomous in setting strategies to develop local economy. Obviously, these similarities suggest the linkage between the non-agricultural production effort during guerrilla base period and the growth of rural enterprises after the economic reform.

Several implications can be summarized from the brief historical review so far. First, large scale rural non-agricultural production is not an alien idea to CCP leadership. Instead, it is an integrated part of the Party's practice. Second, the development of non-agricultural production in rural areas was remembered as an effective approach that solved many practical problems under very difficult conditions. Thus, psychologically, it is easier for the Party to tolerate or even encourage the enthusiasm of Chinese rural people for rural non-agricultural production, although the experiences of the Western countries suggest a different path of economic development. When Chinese rural enterprises started to spread out, people were easily reminded of the Great Production Movement in the guerrilla bases. Third, the experience of the CCP in rural non-agricultural production during the guerrilla base period has practical values for designing policies on rural enterprises. For these two types of activities were revolved under similar circumstances. The similarity between CCP's previous practice and its policies towards

rural enterprises showed the impact of its history. In fact, those who participated in organizing the production effort in guerrilla bases were at the key leadership position when reform started, such as Deng Xiaoping, Chen Yun, and Li Xiannian.

1950-1965

During the First Five-year Plan (1953-1957), the rural non-agricultural development was at a marginal position. There was no organized development. On one hand, non-agricultural production in rural area was excluded from the government agenda (Gary, 1988) because the Soviet model of economic development dominated people's thinking. That model is characterized by an extremely high degree of central control over the nation's economy and the great emphasis on the growth of heavy industry in urban areas. Obviously, rural non-agricultural production had no position in this development model. At meantime, the channel of rural-to-urban migration was open to all rural people. The massive industrialization effort by the government drew a large amount of rural labor force to the cities (Han, 1993b). Rural people had opportunities to participate in urban industrialization. Thus, people did not have the incentive to develop large scale non-agricultural production in rural areas.

Nonetheless, overemphasizing the central control in the nation's economic activities did not fit CCP tradition that emphasized utilizing every initiative. The Soviet model virtually deprived the opportunities from the lower level governments and the mass. They could only follow what was determined by the center. Thus, although it was favored by bureaucrats, Mao started to question the practical value of the Soviet model.

Some foreign scholars also noticed Mao's effort to break up with the Soviet type of centralized planning that neglected the initiative at lower levels (e.g., Sigurdson, 1977; Odgaard, 1992; White, 1988). In Mao's "On the ten great relationships" (1957), he emphasized the importance of local initiatives in economic development, balanced development among different regions and production sectors. In all his life, Mao was always a theorist and a practitioner at the same time. His doubts about the Soviet model and his visions of economic development were clearly manifested in his decision to initiate the Great Leap Forward.

The Great Leap Forward movement in 1958 was an important event in the history of Chinese rural enterprises. The ideological root of the Great Leap Forward is complicated. It can be related to CCP's previous experiences in rural areas, the pressures from external threats, and Chinese people's long lasting desire of surpassing the West. Mao's belief and expertise in using popular participation and mass movement as the effective approach to achieve grandiose goals is a important factor as well. Although the economic consequence of this movement was a disaster, it had profound impacts on the development of Chinese rural enterprises.

During that period, the government mobilized rural people at a massive scale to participate in industrial production. Many factories were set up by rural people almost overnight all over the vast countryside. In the Great Leap Forward, the main purpose of government to promote rural non-agricultural production was to serve the national industrialization in which heavy industry was the focal point. In the guerrilla bases, the primary concern of developing non-agricultural production was to assure the need of

clothing the Red army and base people. The waving and knitting movement were in fact the synonyms of CCP production effort. Similarly, the Great Leap Forward was regarded as an iron and steel production movement. The types of factories established in that period echoed this emphasis. Since it was believed that iron and steel productions were the foremost important factors of the nation's economy, hundreds and thousands factories were set up for this purpose. In addition, millions rural people participated in primitive production of iron and steel. Many other types of manufacturing enterprises were also set up, for instance, farm tool and machinery repairing and producing (Yu & Huang, 1991). By the end of 1959, seven hundred thousand factories were established that employed eighteen million rural people with the output value of six billion Renminbi yuan (Kong, 1993).

Most of these factories were very primitive in many aspects, for instance, technology, basic training of labor force, supply of raw materials, and managerial skill. They were not able to meet even the minimum standards as modern industrial production. Product quality was very poor and often was completely useless. Judged by the economic consequences at that time, this movement is a total failure.

The devastating impact of the Great Leap Forward on the nation's economy forced Chinese government to adopt a series of readjustment policies. As result, the non-agricultural development in rural areas experienced a significant drawback. Many factories were dissolved. Rural labor force diverted to industrial production was returned to agriculture. Thirty million urban workers, who migrated to urban areas just few years ago, were relocated back to rural areas (Yu & Huang, 1991). The rigid restriction of rural-

to-urban migration was effectively enforced at that time. Rural people were completely cut off the opportunities to participate in the urban industrialization. After the Great Leap Forward, for a long period, the rural non-agricultural development was kept in a very low level (See table 2.1).

Table 2.1 Statistics on commune industrial enterprises (1959-1965)

Year	1959	1961	1962	1963	1964	1965
No. of enterprises	700	45	25	11	11	12
Annual output value	7.1b	2.0b	0.8b	0.4b	0.5b	0.5b

Note: 1) Number of enterprises is in thousand.
 2) Output value is in billion Renminbi Yuans.
 3) Source of data: Yu & Huang, 1991:37-37

While admitting the economic failure of this movement, other consequences are worth mentioning, which have positive impacts on the development of Chinese rural enterprises. First, this movement touched almost every corner of China, even some very remote areas. Almost all Chinese rural people, specifically those who were lack of contact with modern industrial production had gained some personal experiences. Many rural people who were peasants all their lives became industrial workers almost overnight at their home communities. Naturally, there should be some learning effects in terms of accumulating experiences for rural non-agricultural production (Han,1993). Second, the Great Leap Forward set the real examples for rural people that traditional urban economic activities could happen in rural areas too, for instance, modern industrial production. Third, many enterprises set up during this period actually did very well and survived

various political events. They become a part of Chinese rural enterprises (Yu & Huang, 1991).

An important message sent by the Great Leap Forward is that Chinese rural people had enormous enthusiasm in rural non-agricultural production. During my interviews with rural people, many of them still felt very excited when they recalled their experiences in the Great Leap Forward. For a popular participation at such a massive scale, it cannot be simply explained away as the result of a few leaders' skills or strategies of manipulating the mass. Without touching people's heart, it is impossible to have the mass act. A similar issue was addressed in one of Mao's earliest essays "Report of Investigation into Peasants Movement in Hunan" (1927). At that time, Hunan peasants demonstrated enormous enthusiasm in revolution and took initiative to dismantle the existing ruling structure in rural areas. Mao recognized that Chinese peasant would be a tremendous force of revolution. Revolutionists had to decide whether they would work with peasants or stop them from participating in the revolution. Mao's conclusion was to choose the first option. The history has proved that Mao's rural based strategy for Chinese revolution is the right one. The peasant enthusiasm expressed in the Great Leap Forward represented a similar situation. That is, Chinese rural people can be a tremendous force for the nation's modernization effort if their enthusiasm is used properly. History again supported this assumption. the CCP under Deng Xiaoping's leadership followed Mao's tradition and helped peasants to express their enthusiasm rather than suppress it. It led to the explosive growth of rural enterprises. This issue will be discussed more thoroughly later.

1966-1977

Two events in this period had important impacts on rural non-agricultural development: the Great Cultural Revolution (1966-1976) and the Northern Agricultural Working Meeting in 1970. The former created a chaotic situation in urban areas and opportunities for developing non-agricultural production in the relatively stable rural areas. The policy issues addressed by the Northern Agricultural Work Meeting showed that limited rural industrialization became a formal agenda of Chinese government. As result, various policies were initiated to promote industrial development in rural areas.

The Cultural Revolution affected rural non-agricultural production in several ways. They were briefly summarized in "The Contemporary Chinese Rural Enterprises" (Yu & Haung, 1991:46-47). First, at its early stage, the chaotic situations in urban areas interrupted the production of many urban enterprises. The nation's economy declined significantly. For instance, in 1967, the nation's industrial output value decreased 14% from 1966. In 1968, it decreased 5% from 1967 (in fixed 1957 price). The decline of production caused severe shortage of many products. On the other hand, Mao issued the famous May 7 directive in 1966 (in Sigurdson, 1977) that allowed rural collective organizations to participate in industrial production. Responding to the demand situation and the political assurance, many factories were established in rural areas. Some factories were established with assistance of urban companies. For some urban enterprises, they had to fulfill the export quota assigned by the government. Since the normal production condition could not be maintained in urban areas, some enterprises went to rural areas

and helped communes and brigades to establish factories that could take over part of their productions. The commune and brigade silk industry in Zhejiang Province was formed in this manner. Table 1.3. summarizes the development of rural industry between 1961-1970 (Yu & Huang, 1991:47)

Second, the chaotic urban situation interrupted normal economic order. It also paralyzed government organization for the employees either became the targets to be attacked or the activists to attack others. The normal work conditions were destroyed. As result, government agencies were unable to enforce the policies that had effectively suppressed rural industrial development after the Great Leap Forward. The disastrous economic consequence of that movement prompted the government to another extreme by strictly prohibiting rural industrial enterprises. Several policy adjustments were set forth for this purpose. For instance, in “The Work Guidelines for People’s Commune(revised draft),” issued in September 1962 at CCP Tenth Plenum of Eighth Central Committee, commune and brigade were explicitly prohibited from establishing non-agricultural enterprises (Yu & Huang, 1991). Rural industrial enterprises were virtually eliminated by those adjustments (see Table 2.1). In 1959, there were seventy hundred thousand factories. In 1963, there was only ten thousand left. From a positive perspective, the Cultural Revolution gave a break for rural non-agricultural production.

Third, the Cultural Revolution created unprecedented rural-urban interaction. Between 1968 and 1976, about 17 million urban youth were sent to rural areas to live and work there for re-education by peasants (Han, 1993b). Many government officials were also sent. It is true that most people who were affected by this practice reacted very

negatively. Nonetheless, this process inevitably defused new knowledge and ideas to rural areas. Because those people generally had more education and experiences with modern economy, they became the important source for technical personnel for non-agricultural production (Tao, 1988). For instance, Zunhua County of Hebei Province received at least 4,600 urban youth. No less than 820 were recruited for industrial work at local communities (Sigurdson, 1977). After the economic reform, almost all those urban youth returned to cities. When rural enterprises started to grow quickly, local officials, particularly those in the Western region of China, wished that those sent-down youth could stay in the local communities. A government official of Shengze Township, Wujiang City told me a story. He used to be a sent-down youth to the remote Xinjiang Autonomous Region. A local official from where he was sent visited him in 1995. The Xinjiang official said that if those sent-down youths were still there, the rural enterprises in their local communities would have significant development.

More importantly, the extensive interaction formed various informal links between rural and urban sectors. Those links helped the development of non-agricultural enterprises at that time. For instance, the parents of sent-down youths would mobilize the resources of their work units to help the communes or brigades where their children stayed (Yu & Huang, 1991). The impact of those links was more evident in the development of rural enterprises after the economic reform. It will be discussed again later.

The Northern Agricultural Work Meeting in 1970, organized by then premier Zhou EnLai, was another important event. It showed that rural industrialization had

become a government agenda. The change in government attitude had direct relevance to the goal of agricultural modernization. Although Chinese government made significant effort, the speed of development was far from satisfactory. People recognized that it was impossible to solely rely on the central government to achieve this goal. Local initiative had to be utilized. Reflecting this idea, a series of policies was set forth to encourage industrial development in rural areas. The government particularly promoted five small industries (fertilizer, iron and steel, machinery, coal mine and small hydropower station, and cement). These productions were considered instrumental to agricultural modernization.

Unlike the Great Leap Forward, this time, there was a clearly defined boundary of the development. It had to be rural economy oriented and could not compete against urban industry. The government policies were summarized as "Sanjiudi" (Three locally) and "Siwei" (Four serves). "Three locally" are acquiring raw materials, producing products, and marketing products locally. "Four serves" are serving agriculture, serving the need to improve living conditions of rural people, serving the need of urban industry, and serving the need for export. The three serves meant that rural industry could only do what urban industry was not able to or would not like to do (Wu, 1993). Those policies were initiated in 1959. They served as the guidelines of development in 1970s.

To assure the mission of serving agriculture, several measures were taken to regulate the rural enterprises. Those regulations often conflicted with the natural rules of business operation and generated difficulties. For instance, the profit margin of agriculture related products were set at a very low level, such as chemical fertilizer,

animal food, and tools. The general principle was that only nominal profit was allowed (Yu & Huang, 1991). Governments only promoted factories producing agricultural related products. Other types of production were considered competing with agriculture hence discouraged. Those requirements created a dilemma.. On one hand, a company was virtually deprived the opportunities to make profit through production. On the other hand, to survive and grow, it had to make profits because a rural enterprise did not enjoy the privilege of state-owned enterprises whose losses could be absorbed by the government.

Rural people's strategies to overcome this dilemma were neither to fight against the government nor to give up operation. They used more creative approaches. On one hand, they still set part of production to serve agriculture therefore maintained a legitimate position within the boundary of government policy. Then, they supported their enterprises through other productions that were profitable but not compatible with the government policy (Yu & Huang, 1991; Tao, 1988). Other strategies include quietly shifting the direction of their productions. A rural entrepreneur I met in Dazhu County told me that, in early 70s, he initially set up a factory to produce animal food. Peasants liked products very much. Unfortunately, the price was regulated by the government at a very low level. He could not make any profit to continue the production. Also, he would not give up the factory either. What he did was, without informing anyone, to quietly produce auto parts. His company had done very well since then. Of course, to get around the government policy involved some political risks. One needs courage to take the actions. Those creative and sometime risky actions in dealing with difficult situations were good evidence of rural people's enthusiasm for non-agricultural development.

There were also many other difficulties due to the interfere from those who had different view on economic development and political correctness. For instance, some people viewed non-agricultural production in rural areas as taking a capitalist direction and should be stooped. Nonetheless, Chinese rural enterprises did achieve substantial growth during this period in responding to the change of government policy (see table 2.2).

Table 2.2 Statistics on Chinese rural enterprises (1970-1978)

Year	1970	1971	1974	1976	1978
Number of enterprises				1.115m	1.524m
Annual total output value		7.79b	12.9b	24.4b	38.5b
Annual industrial output value	2.66b	3.19b	6.68b	12.4b	22.4b

Note: 1) Number of enterprises is in million.
2) Output value is in billion Renminbi Yuans.
3) Source of data: Yu & Huang, 1991:47, 48-59.

Another positive consequence of the government organized rural industrial development was the dissemination of industrial skills in rural areas (Kong, 1993; Sigurdson, 1977). This result had important implication for the future development. To meet the demand for technical personnel and skilled labor forces, many rural people were sent to state-owned enterprises to receive training for basic skills. Technical personnel from urban enterprises were also sent to rural areas to train rural people with technical skills required to operating manufacturing enterprises. Governments at various levels organized many seminars for this purpose as well. The dissemination of industrial skills in rural areas happened during the Great Leap Forward for a short period. This time, the government effort to develop rural industry kept it as a sustained process. As result, it

formed a pool of rural people with industrial skills. Those people became a valuable source of technical personnel for Chinese rural enterprises. Among the rural entrepreneurs I interviewed, several people had this type of experience. For instance, the entrepreneur of a copper sheet company in Shaxi Township, Taicang City, Jiangsu Province, used to be the director of a small chemical fertilizer factory established in this period. The directing manager of a textile mill in Shengze Township, Wujiang City was the director of a small silk mill before. The director of a high-tech company in Meiyan Township, Wujiang City had similar experience as well. They were all star entrepreneurs in their local communities.

If the political and economic system in China remained unchanged after Mao left, the predictions made by Sigurdson (1977) might be today's reality. That is, rural enterprises could only play a limited role in the nation's economy and their importance would decrease. For there were many signs that the government would concentrate resources on large scale state enterprises rather than promote small businesses. Obviously, those predictions do not match the current situation. Two reasons account for the failure of those predictions. First, they were based on the situations of that time and by the assumption that the Chinese society would not change. Second, the rural non-agricultural development was considered as determined mainly by the government actions. The initiative and enthusiasm of Chinese rural people were left out of analysis. It excluded the possibility that rural enterprises could be developed by rural people themselves. The reality was that since 1978, China's economic reform has changed the nation fundamentally. It generated many opportunities for rural people to engage in non-

agricultural production. Rural people responded to those opportunities enthusiastically. As result, Chinese rural enterprises became a heavy-weight player in the nation's economy.

Early period of the economic reform: Preparing for the big jump (1978-1983)

At the beginning of this period, the government policy on rural non-agricultural development showed one significant change. In July 1979, Chinese State Department issued a policy document, "Regulations on developing commune and brigade enterprises," which laid out eighteen guidelines. In this document, the key issues addressed were to recognize the positive contribution of rural enterprises to the development of agriculture and the nation's economy. It also officially assured the legitimate right of commune and brigade to develop non-agricultural enterprises. In September 1979, the Party held the Fourth Plenum of the Eleventh Central Committee. At that meeting, a policy document, "The decisions on several issues in speeding up agricultural development," was issued. It called for fast development of rural enterprises. A specific goal was set that the output value of commune and brigade enterprises should reach half of the commune economy by 1985. This was a significant adjustment to the previous policies that agriculture had to be the primary economic activity in rural areas. It allowed a more diversified rural economy in which agricultural and non-agricultural productions were all encouraged.

More importantly, these policy adjustments meant that for the first time since the CCP was in power, the government officially recognized rural enterprises as an important

sector of the nation's economy. Before the publication of those documents, rural enterprises were in an awkward situation. On one hand, the Northern Agricultural Working Meeting sent the signal of promoting commune and brigade enterprises. On the other hand, a Party document, issued in the Tenth Plenum of the Eighth Central Committee in September 1962, clearly stated that commune and brigade were not allowed to set up industrial enterprises (The Work Guidelines for People's Commune(revised draft)). That document was never officially canceled until 1979. Those conflicting documents caused many difficulties for rural enterprises. The publication of those policy documents implied that officially, or by law, rural people have the rights to establish industrial enterprises. It was a big step forward compared with the previous policies.

To be realistic, the publication of those policy documents did not mean that everyone would favor the development of rural enterprises. After all, China had been a planned economy for more than thirty years at that time. The disastrous consequence of the Great Leap Forward was still vividly remembered. That state owned enterprises should dominate the industrial sector of economy and rural areas should exclusively focus on agriculture were deeply imbedded beliefs. Even in the policy documents just cited, although the legal status of commune and brigade enterprises was officially recognized, it still maintained the boundaries that rural enterprises should mainly serve agriculture and be supplemental to rather than competing against urban enterprises. Also there was no official endorsement to private capital in developing rural non-agricultural production.

Because of those restrictions, the similar dilemma just mentioned still existed under the new policy. Rural enterprises were mainly operated outside the web of state

planing and under market conditions. Thus, for a company to grow, it had to step over those boundaries. For instance, it had to obtain the government controlled raw materials through non-official channels, to produce the products that are irrelevant to agriculture as long as a profit can be made, and to sell products in the markets that regulated by the state planning. It would also apply some market driven strategies in its production and marketing activities, such as exchange its products for the supply of materials, selling products directly to the customers, and using commission to promote sale. All those actions violated the government restrictions. Unfortunately, those were inevitable consequences since the restrictions imposed on rural enterprises were incompatible with the goal of speeding up the development in this sector.

To address this dilemma, in 1979, a heated debate broke up among decision makers (Yu & Huang, 1991). It revolved around several key topics, such as whether rural enterprises had to comply with the official regulations of serving agriculture, not competing with state owned enterprises, and abiding the rules of state planning rather than responding to market opportunities. Although there was no official conclusion to that debate, it did shake many orthodox ideas of economic development and helped to form a more liberal environment for rural enterprises. As result, the government policies issued in later years continued the trend of loosening restrictions on development.

A major improvement is that people gradually accepted that responding to market opportunities should be the key strategy of development (Yu & Huang, 1991). For a rural enterprise to grow, it had to serve the demand of market. Guided by this newly formed idea of serving the markets, the government took actions to help rural enterprises to

readjust production direction. Many commune and brigade enterprises were initially set for machinery production. Then soon people found out that, nationwide, the capacity of machinery production was much greater than the demand. On the other hand, many consumer products, such as bicycle, electrical fan, radio, clothes, and shoes were in severe shortage. With government assistance, many rural enterprises switched to consumer goods production.

Between 1978 and 1983, Chinese rural enterprises enjoyed a significant growth rate. Nonetheless, the growth was not particularly impressive yet compared with other sectors of the nation's economy (See table 1.1 and 1.2). Furthermore, the growth was mainly primarily in the collective sector of rural enterprises. Private enterprises did not have noticeable presence. Although the government policy became increasingly liberal, rural enterprises was still in a marginal position in people's thinking of rural development. Its supplemental status in the nation's economy did not change. Few would consider that rural enterprises could play a major role in the nation's economic development.

Looking back at that period, it is clear now that the policy adjustments made by Chinese government were still at a preparatory stage. A few more key adjustments were needed to allow the full expression of developmental potential. Beside the restriction of serving agriculture, the government effort to promote rural enterprises was limited to rural collective organizations, such as commune and brigade. Theoretically, those enterprises were collective assets and owned by the people of local communities, not by individual or by the state. For instance, a factory established by a brigade is owned by all people of that brigade.

Private capital was not allowed for it was completely incompatible with the socialist ideology. As the reform in rural areas progressed, however, the policy of prohibiting private capital in rural enterprises was under ever increasing pressure by peasant enthusiasm. In 1982, the central government officially endorsed the Household Responsibility System (HRS) in the Central Committee Circular No. 1. The core of HRS is to give peasants the freedom in both production and marketing, and the right of being rewarded on their performance. Once peasants have the economic autonomy and are motivated to fully utilize its potential, it is unrealistic to expect that they would restrict their activities in agriculture. That peasants would pursue other opportunities for greater economic benefits became a real possibility. The government policy of prohibiting private capital in rural enterprises was seriously challenged as the momentum was building up. In many areas, the involvement of private capital in rural enterprises was gradually spreading (Qing, 1993). In 1983, there were about 500,000 private enterprises (Yu & Huang, 1991). Publicly, these private enterprises had to be disguised as collective enterprises to avoid political risk (Zhou, 1996). For instance, the joint-household enterprises, a type of quasi-collective enterprises but private capital in essence, increased from 137 to 714 in Jinjiang city, Fujian Province from 1981 to 1983 (Wei, 1994). In Wenzhou City, another famous place for its private enterprises and the home of Wenzhou Model, household enterprises were widespread in early 80s. In 1980, its family and joint-household enterprises had already achieved an annual output value of 200 million Renminbi yuans (Yu & Huang, 1991:227). Many signs suggested that the monopoly

position of collective enterprises backed by government policies was no longer practical. It was the time for another major policy adjustment.

Development on the fast track: 1984-1989

The situation changed dramatically in 1984. This is the year that Chinese rural enterprises showed a jump-start manner of development. Since then, the growth in this section was maintained at an astonishing high growth rate of 40% in terms of annual output value until 1989 (See Table 1.1). It is generally acknowledged that the Central Committee Circular No. 1 of the CCP in 1984 pulled the trigger. The key adjustments in this document were to accept that private businesses as an integrate part of rural enterprises and no longer to insist serving agriculture as the primary goal. Those two adjustments removed the two most critical restrictions on rural enterprises. The first adjustment officially allowed the mass majority of rural people to participate in non-agricultural production. It also gave political assurance for a full scale development. As the Mayor of Jinjiang City said in 1994, they had encouraged the development of private enterprises several years ahead of the central government policy. Although their actions helped the local economy, until the publication of Circular No. 1, they always worried that they were taking a gamble for their political career. After that, they felt much relieved and would work harder to promote the local economy.

The restriction that rural enterprises have to serve agriculture directly was always a significant barrier of development. For it was an unrealistic requirement for normal business operation. A company operated under the market mechanism could not afford

giving up business opportunities by engaging in not profitable production to support agriculture. It had to respond to market demand. Nevertheless, because of this restriction, a company could be constantly harassed if its production deviated from the government guideline. This restriction used to be a primary source of difficulty for rural enterprises. In the Circular No. 4 of 1984, which extended the spirit of Circular No. 1, the objects of rural enterprises were stated as an important new source of government revenue, an important part of the nation's economy, an important mean to absorb rural surplus labor, and an important mean to improve the lives of rural people. Serving agriculture was mentioned but not as the primary goal. Thus, the second policy adjustment significantly reduced the possibility of administrative interference and allowed the development of rural enterprises to guided by market mechanism.

Following these two major documents, a series of policy adjustments were released for various operational issues. For instance, Document No. 26 of State Department (Yu & Huang, 1991:235) in February 1984 specified that private enterprises could hire workers. It stated that an individual household business could hire no more than two workers and a private enterprises no more than eight workers. Although the number of workers that a private business allowed to hire was trivial, this adjustment had an extremely important symbolic implication. Hiring people to work for private business had been considered as only existed in a capitalist society. Such a practice was unthinkable if ideological correctness was the primary concern. The State Department also issued another document in February 1984 that allowed rural people to engage in long distance trade and commercial transportation. These were the two critical elements

of business operation. CCP Circular No. 1 in 1985 allowed some tax-break and access to government loans by rural enterprises.

Interestingly, the encouragement from the government for a full scale development of rural enterprises, especially the private sector, were expressed in a subtle way. Besides specific guidelines, the importance of these policy adjustments were the cues and signals they carried in terms of the direction and scope of development. People needed to use their own judgment to decide the direction and boundary of their actions. A distinctive feature characterizing Chinese society during this period was that people tried very hard to read the implications of the government policies, to find out the gray areas, and to adjust their course of actions accordingly. In a Chinese term, this practice is called "Zuan Zhengcei de Kongzi (finding the loopholes in the government policies)." For instance, the rule that a private enterprise could only hire less than eight workers were rarely abided. There were many private enterprises that hired hundreds even thousands of workers. I interviewed several private owners in Jinjiang City. Their businesses started in 1983 or 1984. They all hired more than 40 workers, much more than what was allowed by the government policy. Obviously, the symbolic implication of those policy adjustments were more important than their regulatory functions in affecting people's behavior.

Those key adjustments triggered explosive growth in rural non-agricultural production. The number of rural enterprises increased to more than 6 million in 1984 from the 1983 level of 1.3 million. Among 6 million enterprises, 4.17 million were private businesses. The increase was particularly significant in the industrial sector, from 0.74 million in 1983 to 4.81 million in 1984 (Yu & Huang, 1991). Though the official

documents explained that the 1983 figure covered collective enterprises only, the number of private enterprises before 1984 was not significant, not to mention that many private enterprises were disguised as collective enterprises. It is reasonable to infer that the dramatic change in the number of businesses is primarily due to the increase in the private sector. If one considered the fact that many private enterprises were disguised as collective enterprises, the proportion of the private sector in Chinese rural enterprises should be greater. The practice to disguise as a collective enterprise existed even in 1994 when I conducted my field research. Many private enterprises in Jinjiang City were still registered as township or village owned. In government statistics, they would be counted as collective enterprises. The total number of rural enterprises was further doubled in 1985 to reach 12.2 million with a private sector of 10.4 million. According to government statistics (The annual review of Chinese rural enterprises, 1989), by the turn of 1989, there were 18.09 million private rural enterprises, out of total 18.88 million. This trend indicated the association between the massive participation of rural entrepreneurs and the extraordinary development of rural enterprises.

Although the attitude of government was changing, the role of private enterprises remained a controversial issue during this period. In practice, Chinese government gave a subtle signal for the development of private enterprises then adopted a wait-and-see strategy for the follow-up actions (Lin, 1990). It was not until 1987 when CCP Circular No. 5 finally legitimized their positions due to the significant importance of this sector in the nation's economy. In June 1988, the State Department formally issued a policy

document, "People's Republic of China private business regulations." It stated that the government would protect the interest of private business.

Though the statistics showed that the private sector of rural enterprise grew fast in number since 1984, the collective sector remained as the main source of employment. In 1984, forty million people worked in the collective sector and only 12 million in the private sector. The situation was improved in 1987, forty-seven million in the collective and fourth-one million in the private sector. Since the collective enterprises only accounted for 9% of the total, those numbers suggested that they were generally greater in size than the private enterprises (Yu & Huang, 1991).

Furthermore, I would not to convey an impression that the development of the private sector was the main source of growth. This sector is emphasized for it is a distinctive feature of development during this period. It is also at the interest of this study to demonstrate how the actions of rural entrepreneurs are affected by various environmental conditions. The collective sector benefited significantly from those policy adjustments as well, particularly that serving agriculture was no longer the designated goal of business operation. The rural enterprises in the Southern part of Jiangsu Province were predominantly in the collective sector. This area had kept its leading position over all other parts of China in terms the development of rural enterprises. In fact, the contribution of the collective sector was even greater judged by many major performance indexes, for instance, output value and tax (See Table 2.3).

As can be seen from Table 2.3, in 1988, the taxes from the private sector showed a dramatic increase. This phenomenon was relevant to the policies of local government.

To stimulate the development of certain types of business such as food and agriculture related productions, and enterprises in backward areas, the central government allowed tax break for newly established enterprises in these categories. On the other hand, it also allowed the local government at county level the freedom to decide tax policy on local companies. In practice, county governments usually gave all newly established enterprises a three-year tax break, regardless of the type of business. This practice was adopted in all places I visited. The tax break ended in 1988 for the companies established in 1984 therefore the taxes from private sector increased significantly.

Table 2.3 Output value and taxes by collective and private enterprises.

Year	1984	1985	1986	1987	1988
Output value (Coll.)	146.6b	205.0b	251.6b	323.7b	446.2b
Output value (Priv.)	24.4b	77.9b	102.5b	152.7b	203.4b
Taxes (Coll.)	7.9b	10.8b	13.7b	16.9b	18.8b
Taxes (Priv)	1.1b	2.9b	3.9b	5.2b	21.7b*

Note: 1) Output value is in billion Renminbi Yuans.

2) Source of data: Yu & Huang, 1991:47, 48-59. Chinese rural Enterprises Yearbook, 1989.

Continuous development: 1990-1995

The fast-track development went to a temporary halt in 1989. The Tiananmen Square Incident changed political atmosphere and exerted negative impacts on rural enterprises. In the Fifty Plenum of the Thirteenth Central Committee in November 1989, several previously removed restrictions were re-imposed, such as rural enterprises could only be supplemental to urban economy, should rely on local resources, and should not compete with state enterprises for raw materials. The government particularly tightened

credit supply to rural enterprises (Ody, 1993). The private enterprises were viewed once again as a threat that undermine the government authority and should be restricted.

Fortunately, those policy readjustments were not the signals that the Chinese government was to return the era when ideological purity was the primary concern. The economic reform changed China substantially and there was no way to go back. The fact that Deng Xiaoping was still firmly in charge provided additional assurance in this regard. As a scholar who was close to the center advised a rural entrepreneur in June 1989, the temporary change in political climate would not cause a long term aversive impact on reform process and he should take the opportunity to expand business (Fu, 1992). Counterbalanced by the reform momentum, the impact of ideologically driven but economically unsound policy adjustment was limited. The environment was indeed less favorable compared with that during 1984-88, but was far from reaching the point of denying rural enterprises. There was enough room for maneuver.

Politically, rural enterprises were actually not the targets of readjustment. The readjustments mainly aimed at the increasing social instability related to the overheated economy. In this sense, rural enterprises were indirectly responsible for some social and economic development since they formed the fastest growing sector in the nation's economy. There was also an hidden reason that rural enterprises were attacked. The fast growth in this sector did put strong pressures on state owned enterprises for they were losing market, revenue, and supply of raw materials. It also made the later look bad in front of the nation for its sluggish performance. To defend their ego, the sluggish performance in the state sector was often blamed to "unfair competition by the rural

sector.” They particularly resented that businesses ran by rural people who were viewed as inferior by urban folks now outperform those well equipped modern enterprises. The temporary change of political climate provided an opportunity to express such a hostile attitude. For instance, in the Fifth Plenum, to compete with state enterprises for materials and energy was listed as a criterion to close down a rural enterprise. Obviously, this criterion served no economic purpose but protecting state enterprises. As Ody (1993) indicated, the policy readjustment reflected the discriminatory effort to “tilt” the supply of credit and other input in favor of the state owned enterprises.

Although the temporal change in the political climate created difficulties, the austere policies did not cause a severe setback in rural enterprises, like what happened after the Great Leap Forward. Though the speed of development slowed down in 1989 and became less dramatic, the industrial sector of rural enterprises still enjoyed a very comfortable growth rate of 15% in 1990 and 44% in 1991 in terms of annual output value (See table 1.1). A major sector that showed a noticeable setback was among construction enterprises (Ody, 1993). This is understandable given that the government tightened control over fixed asset investment nationwide to cool down the overheated economy. Consequently, there were fewer construction projects.

Several factors contributed to the capacity of Chinese rural enterprises to withstand the adverse environment and maintain a respectable growth rate. First, rural enterprises were mainly operated under the market mechanism. Market demand decided their existence. The economic reform had changed Chinese economy from the state planning to a more market driven one. Also the changes were so substantial that it was

impossible to fully restore a planned economy. Since the political climate was far from completely denying rural enterprises, as long as market demands existed, there were opportunities for growth.

Second, rural enterprises had become a major financial source for local governments (Byrd & Gelb, 1990). Many local governments set forth their own policies to protect enterprises within their own jurisdictions. They created local business environments that were more favorable than the macro one affected by the policy of the central government. Third, the central government's capacity for intervening into local activities was not as strong as it used to be. The economic reform had transferred a significant portion of the central power to the local authority or even to individuals, as what HRS did. Thus, it was difficult to align the actions of local governments with the center. Finally, Chinese rural people were very creative and intelligent in coping with the unfavorable environment. For instance, the tightened control over credit supply caused difficulties in business operation. This problem was mitigated to some degree by pooling workers savings and lending from rural credit cooperative.

The austere environment actually exerted some positive impacts by filtering out less competitive companies (Ody, 1993). Although the total number of rural enterprises decreased in 1989 and 1990 (See table 1.1), the overall quality was improved. After this adjustment, rural enterprises as a major player in the nation's economy was ready for another big jump. Deng Xiaoping's speeches during his tour of southern China in 1992 pulled the trigger for that big jump. In that speech, he gave the political assurance for a more liberal business environment. He encouraged the nation to speed up the reform and

to adopt a more open and more liberal attitude. Those speeches helped to remove many restrictions, pushed aside many controversial issues, and cleared the way for fast development. When I conducted my field study, I noticed that local officials frequently cited a phrase from those speeches: “ Only growth matters (Fazhang Caishi Yingdoali).” That is, whether an action was acceptable depended on whether it promoted rather than hindered economic development. Because of Deng’s status as the paramount leader of China, his words carried a heavy weight in terms of political impact. People used this phrase to defend rural enterprises and justified their efforts to promote local economy. For the development in this section clearly helped the growth of the nation’s economy. Since then, Chinese rural enterprises enjoyed another period of uninterrupted growth at the annual rate of 44% (See table 1.1 and 1.2).

Summary

From the historical review, a pattern has emerged that there is a significant parallel between the government policies and non-agricultural development in rural areas. The government policy determined the amount of autonomy that rural people could have in such development. As the government loosen its grip, people got greater freedom to act and rural non-agricultural production expanded. To some extent, since the CCP took the power, the changes in government policy toward rural non-agricultural development suggested that the Party gradually regressed to its rural roots formed during the war period. That is, the rural areas became more and more important in the Party’s effort to cope with major social and economic problems.

Under Mao's leadership, the CCP was a political organization driven by the passion to revive Chinese culture and using pragmatic approaches to achieve its goals. The pragmatic side of the CCP mainly reflected in Mao's rural-based strategy of revolution. Consequently, the development of rural non-agricultural production became a critical issue for this strategy to succeed. The positive experiences of developing base economy in backward rural areas no doubt affected the policies on similar issues during the peace time.

When it just entered power in 1949, the CCP adopted the Soviet model of industrialization, in which the attention was completely on urban industry and the central planning. This model did not fit the tradition of the CCP that emphasizes initiative at all levels, not just in the center. Also affected by other factors, such as the concern for self-independence and surpassing the Western nations, around 1958, the CCP returned to its tradition by involving the whole nation in the process of national industrialization. The disastrous economic consequence of the Great Leap Forward interrupted this process. Then it resumed very soon but in a controlled manner. As the historical review showed, since Northern Agricultural Meeting in 1970, CCP's policies on rural non-agricultural development gradually returned to its rural roots.

The policy adjustments on rural non-agricultural production progressed gradually. The previous policies set up stages for the later ones and the effectiveness of a specific policy is built upon the previous preparation. From a historical perspective, the explosive development of Chinese rural enterprises should not be a surprise. What we see now is the outcomes accumulated in several decades.

People's enthusiasm of responding to the opportunities affected the effectiveness of government policies as well. Chinese rural people demonstrated in many occasions their enthusiasm toward any changes that could improve their lives, such as peasant movement at the early time of revolution, peasant support in the rural base era, peasant participation in the Great Leap Forward, and the development of rural enterprises. CCP's rural roots made it easier to understand peasant enthusiasm and to work with it. This can partly explain that the government policies after 1978 on rural development primarily followed the spontaneous developmental trend driven by peasants enthusiasm rather than led the direction.

Another phenomenon can be summarized from the brief review. During the Great Leap Forward in 1958, the government promoted rural non-agricultural development to serve the goal of national industrialization. It was assumed that with the full participation of people, the process of industrialization could be accelerated. Unfortunately, the disastrous consequence of Great Leap Forward put this attempt to a stop. When the government promoted rural non-agricultural development in 1970, the goal was limited and the scope of production was restricted. Rural enterprises had to serve agriculture modernization and could only produce certain agriculture related products. They should not compete with urban industry and restrict their activities within local communities. The lesson learned from 1958 clearly had some impacts on this cautious attitude. These guidelines in fact are never abandoned by the government. As late as 1987, the supplemental nature of rural enterprises in the nation's economy and the purpose of serving agriculture were still stated in government documents. Nevertheless, after 1984,

the development of rural enterprises became spontaneous actions by rural people rather than a movement guided by the government policies. Therefore, those official restrictions had little impacts on the direction of development. Within the upper-limit of political tolerance, rural people did whatever they wanted and could as long as the markets absorbed their products. There was virtually no limit about what to produce, where to get raw materials, and where to sell products. The situation became the de facto full scale participation of rural people in the national industrialization. Thus, what the government failed to achieve in 1958 was being accomplished by Chinese rural people themselves in 1980s, though Chinese government still played a pivotal role in the process.

Chapter Three

Societal changes and the actions of grass-roots people: Some conceptual issues

To reveal what accounted for the success of Chinese rural enterprises, this study follows an axiom that all changes in a society are the outcomes of people's either goal-directed actions or unintentional behavior. Even if people may act under the circumstances of not their own choosing, their actions are still critical links through which the contributions of all other conditions in producing a particular societal change can be realized. Or in other words, without people taking specific actions, either voluntarily or involuntarily, any change potential would remain as potential but reality. For understanding changes in a society, the roles of social, economical, political, cultural, and individuals' psychological conditions have to be analyzed in terms of their impacts on people's behavior.

Following this axiom, three sets of conceptual issues will be addressed in this chapter. First, the notion that people's actions are important in understanding changes in a society is the base to form the investigation strategy in this study. It deserves an explanation of why so. Then the rationale of why this study specifically focuses on the actions of Chinese rural entrepreneurs will be presented. Second, given the assumed importance of people's actions, the discussion will shift to questions such as what are the general rules of analyzing the causes and impacts of people's actions and how these rules

will be applied in this study. Third, given that entrepreneurial activities are the focus of this study, the discussion will be turned to the specific actions of Chinese rural entrepreneurs to be investigated and the conceptual base for doing so.

1. The actions of grass-roots people as the key to understand Chinese rural enterprises.

Mao's notion of people as the determining factor of change in a society.

In the contemporary Chinese history, Mao Zedong is a prominent figure who passionately promoted the notion that people rather than environment determined changes in a society. In his famous essay, *On Protracted War*, Mao wrote: "A weapon is an important but not a determining factor of a war. The determining factors are people not materials." (1938:437). Also expressed in many of his other writings, for instance, *On Practice* (1937), Mao repeatedly emphasized this notion. His famous assertion "All reactionaries are paper tigers (1957c:499)" is a good example in this regard too. This notion was also an important theme in many poems he wrote. For instance, "There is no difficulty in the world, as long as people would make great efforts (from *Revisit Jinggang Mountain*(Chongshang Jinggangshang)," "With great sacrifice and ambition, we dare change the moon and the sun (From *At Shaoshan* (Dao Shaoshang)," "Red Army is not afraid of the long march. No matter how great are the difficulties, they are just ordinary (from *Long March* (Changzheng))."

Apart from his political agenda of attracting mass to join the revolution and his romantic personality as a great poet, Mao's notion does touch a critical issue of societal change: people have to take actions for an expected change to happen. Mao's notion that people is the determining factor of change has two implications. First, once an opportunity emerges, whether it can become reality depends on whether people would and are able to take necessary actions. Second, how effectively a given condition or an opportunity can be utilized is affected by the quality of people involved. Under the same condition, a hard working and very able person can achieve much more than a person who would spend less effort and is less capable of performing necessary tasks. Mao believed that if people would make their best efforts, they can turn a seemingly very dim opportunity into reality and overcome normally insurmountable difficulties.

A source of Mao's notion may be ascribed to the unique circumstance of Chinese revolution. As discussed in Chapter 2, very strong enemies and extremely poor material supply conditions are two distinctive features of Chinese revolution. The enemies were much more superior in terms of their military, economical, and political strengths than the revolutionary force. For instance, CCP's troop was constantly laughed at by its enemies as poorly clothed, fed, and equipped. Under very difficult material conditions, people's desires to make persistent effort towards the goals became very critical to win the revolution. Mao's emphasis on the determining effect of people reflected his practical attitude in dealing with the difficulties as well as his keen understanding of societal changes.

Mao has an unusual capability of sensing some remote and seemingly impossible opportunities for Chinese revolution. For instance, in "A spark may be turned into a jungle fire (1930)," he reasoned and concluded that although the enemy was very strong, the revolutionary force would win their struggle at the end. At that time, the Red Army only had two thousand badly equipped people and camped in the remote and backward Jinggang Mountain base. Obviously, to turn such a seemingly very remote and impossible opportunities into reality, people have to make extraordinary effort to utilize every bit of resources that was available. Under such a circumstance, people but material conditions became determining factors of success.

Guided by his notion, Mao greatly emphasized the importance of motivating and educating mass in his revolution effort. For Mao reasoned that the more strong-willed people joined revolution effort, the more likely revolutionary force would overcome the mounting difficulties and win the victory. Therefore, arousing people's enthusiasm for revolution and training them to be competent revolutionists became priorities for the Party. This is vividly manifested in On Protracted War. While addressed the critical conditions to win the fight against Japanese invaders, Mao wrote:

Nothing can be more important than the issue of politically mobilizing people. The reason that we repeatedly emphasize this issue is because there is no way to win the victory if people are not politically mobilized. It is true that without many other necessary conditions, we cannot win our fight (against Japanese invaders). Nonetheless, this is the most critical condition for success (1938a:480).

"A Fool Man Moves Mountains (1945b)" was a very popular piece of Mao's works during the cultural revolution. In that article, Mao contended that the Party could

achieve its goal if all members would make persistent effort. He also asserted that if all members made persistent efforts, more people would be impressed and join the revolutionary camp, then a victory was near.

As result, mobilizing people in a massive scale to compensate the weak material conditions was a distinctive feature of CCP's practice during the war time. The idea of people's war is a typical example in this regard which blurs the traditional division between soldier and civilian and includes everyone in the military actions against the enemies. Using mass movement to overcome material difficulties continued during the peace time. For instance, the great leap forward movement is a good example in this regard. There were occasions that Mao went too far in his actions by overemphasizing the will power of people, therefore caused significant damages to the society. Nonetheless, many practices driven by the belief that people were determining factors of change were instrumental to the success of Chinese revolution.

Under Mao's leadership, the history of Chinese revolution becomes a typical case that when opportunities were available under extremely difficult conditions, the persistent efforts by strongly willed revolutionists became the determining factors in achieving the expected goals. For the environment in which the CCP grew was extremely unfavorable, its success can hardly be attributed to external conditions but the effort of Chinese communists and their supporters. The CCP started in 1921 as a small group of several dozens people in a country that had a population of over four hundred million at the time. Driven by a sense of mission to establish a strong and prosperous China, and revive the glory of Chinese culture (Chen, 1993), they struggled against their enemies who were

superior in political, military, and economical strengths. In the process, they endured numerous unimaginable difficulties and showed unprecedented courage and wisdom. The Long March (1937-1938) by Chinese Red Army demonstrated how people's extraordinary efforts turned almost impossible odds into reality. Edgar Snow's "Red Star Over China" is a good source of literature in this regard. Through the persistent and creative effort of Chinese communists, they grew from weak to strong and finally defeated their enemies.

Mao was not the only person who emphasized the importance of people in societal changes. Meng Zi, whose position in Confucianism is second only to Confucius, said more than two thousand years ago: "Everyone can be a Shengren (The highest stage of moral accomplishment by the standard of Confucianism)." Huineng, the founding father of Zen School of Buddhism, also had similar saying: "Everyone can be a Buddha as long as they would make effort." Max Weber's view on Protestant values in the development of capitalism (1920), David McClelland's view on the role of need for achievement in economic development (1966), and Inkeles' notion of "modernization of people (1966)" are examples of the Western thoughts regarding the importance of people in societal changes. Nonetheless, few have ever emphasized the importance of people to the extent as Mao did and even fewer have successfully applied this belief in a societal change at the scale of Chinese revolution.

The importance of people in understanding Chinese rural enterprises

The reason to emphasize Mao's notion is because of its great relevance to the objective of this study. At the early stage, Chinese rural enterprises were developed under

the conditions that resembled those of Chinese revolution. First, Chinese rural enterprises were developed under extremely poor material conditions. Though the changes in government policy gradually allowed opportunities for non-agricultural development in rural areas, the environment was very hostile indeed. It is not exaggerated that when most rural entrepreneurs started their businesses, they had almost nothing but people, hard working and strong willed people. In terms of material conditions, Chinese rural entrepreneurs began their quest for success from a highly disadvantaged position. A local government official in Tong County of Beijing told me: "You have to respect those rural entrepreneurs. When they started their businesses, they had nothing but themselves. They carried some coarse food with them, knocked every door they could find, and talked to people who would like to spent some time with them. Then after few years, they all had their own businesses with respectable strengths. Those businesses were all built from scratch." Under very difficult material conditions, people's personal characteristics became critical for success. It meant that they need to have strong desire and optimal capabilities to initiate and sustain their actions to compensate the deficiency in material conditions.

The second resemblance was about the strengths of competitors. Chinese revolutionists faced enemies that were much superior in terms military, economic, and political strengths. For rural enterprises, their main competitors at the early stage of development, state owned enterprises, were also superior in many aspects of business operation, such as supply of capital, technical personnel, market channel, and raw materials. In the late 70s, the Chinese economy was dominated by state owned

enterprises. Through its administrative power, the government guaranteed state owned enterprises with all necessary resources of business operation. Rural enterprises were virtually excluded from the formal channels of accessing the resources controlled by the government. Facing the strong competitors, as what Chinese revolutionists did during the wartime, guerrilla warfare was the main strategy of rural enterprises to compete against state enterprises at the early stage of development. They produced whatever their competitors would not do, went wherever the competitors would not go, and avoided direct competition. This highly responsive and adaptive strategy demanded people involved to be highly proactive and demonstrate great initiative.

Given those similarities, what accounted for the success of Chinese revolution can help to explain the development of Chinese rural enterprises. At present, Chinese rural enterprises is a formidable force in the nation's economy. No one ever predicted or expected the success of such an magnitude. Given the extremely difficult situations in which Chinese rural enterprises operated, it is hard to ascribe the success to favorable external conditions. If people who directly involved in the development are left out, any attempt to understand this phenomenon will not yield meaningful results. Therefore, this study takes a perspective that people are the determining factors of changes. People's actions will be at the center stage of investigation. The analysis will revolve around the action of those who have the closest association with rural enterprises.

Many other perspectives in explaining social and economic phenomena do not exclude people in analyses. In most cases, however, the practice is to hold people as a constant, then to develop a conceptual framework of investigation. For instance, the

economic perspective adopts the assumption of "rational people." It is assumed that people act rationally in terms of the calculation of gain and loss. Elitism perspectives view the majority of people as permissive, obedience, and incompetent. People's actions can be shaped by the will of elite groups. The cultural explanation holds that people act according to their values, beliefs, and behavioral norms shaped through their childhood experiences. These perspectives share a characteristic that they treat people as the least dynamic factor for understanding changes in a society. People only passively respond to external conditions and act in terms of built-in patterns. Once the configurations of an environment or people themselves are set up, their behavior is determined. Nonetheless, the reality is exactly the opposite. People should be the most dynamic factor of changes.

The liberal political atmosphere associated with the economic reform, the business opportunities associated with a partially reformed economy of the nation, and the sense of commodity production and commercial activities are among the frequently cited factors in explaining the success of Chinese rural enterprises. Nonetheless, the liberal atmosphere is not created by the government alone. It is a result that the government yielded to the initiative of rural people rather than the reverse. Business opportunities are abundant in today's China, but not everyone responded and even fewer people were successful in catching them. The coastal region is supposedly rich in commercial spirit but intra-regional differences in development can be easily observed. These differences cannot be explained if people just passively react to their environments.

In this study, by emphasizing people as the determining factor, their actions will be viewed as proactive in dealing with the environments. The initiative and creativity of

people become important factors to understand changes in a society. And the different outcomes will be analyzed in terms of differences in people's action. It is necessary to point out that people are by no means the sole factor to determine changes. Material conditions are important and will be investigated as well. Besides the consideration of the particular conditions under which Chinese rural enterprises developed, to emphasize the importance of people in this study is also an effort to counter balance the situation that disproportionate more studies neglect this factor than seriously investigate it.

People at grass-roots level as the change agent.

"The people, and the people alone, are the driving forces that make world history (Vol. 3, 1966:980)." "(People) are the creators of human history (Vol. 3, 1966:830)." As a distinctive character of Mao Zedong's thoughts, he extended his notion that people were the determining factors of changes by emphasizing the role of grass-roots people. This issue has been touched briefly in the previous section and will be discussed more in this section. Mao's usage of the term people always refers to those who do not belong to elite or privileged groups. He believed that the actions of grass-roots people are the most effective in producing real changes in a society. Also, the massive participation of grass-roots people is considered the precondition for any attempt of change to be successful. For instance, it was listed as the utmost important factor to win the war against Japanese invaders (Mao, 1938). In one of his earliest essays, "Report of investigation into peasant movement in Hunan" (1927:12), he hailed the spontaneous actions of peasants during the

first revolutionary war period (1926-1927) for they had changed the countryside fundamentally.

Practically, the massive participation of grass-roots people has critical implication to CCP's quest for political power. Its enemies were much more superior in terms of material strength. To remedy the weaknesses, the CCP had to use man power to substitute materials in its struggle against hostile forces. Affected by his belief and faced the reality of Chinese revolution, Mao consciously promoted the participation of grass-roots people. His effort resulted in many unique strategies, such as people's war and mass movement. In mass movement, the power and responsibility of problems solving are delegated to people at grass-roots levels.

The practice of massive popular participation continued after the CCP won the power of China. Mao represents a rare case that mobilizing mass is kept as a frequently used approach to promote changes in the society even after the CCP was in a ruling position. Mao usually adopted the practice of delegating power to people who were at the lowest level of social hierarchy. His attempt of decentralization in economic activities were recognized by some foreign scholars as well (e.g., Sigurdson, 1977; Gary, 1988). Two major events typically demonstrate his approach. One is the Great Leap Forward (1958) in which everyone in the nation was allowed the opportunity of participating in industrialization. The other is the Great Cultural Revolution (1966-1976). In that movement, political power was delegated to those who were at the lowest level of social hierarchy.

The notion that grass-roots people are the main force of change and the practice of mass movement have important implications for understanding Chinese rural enterprises. This phenomenon can be viewed to some extent as the continuity of Mao's legacy that people at grass-roots level determine the changes in the society. The development of Chinese rural enterprises is a phenomenon at a massive scale which cannot be achieved if only a small group of people involved. The massive participation of grass-roots people is a precondition for any changes of such a scale. Furthermore, the unique situation of Chinese society gives extra reasons to consider the determining impact of grass-roots people. As the results of Mao's efforts, Chinese people have rich experience of mass movements and there is a strong mentality in China that everyone has the right to participate since everyone is equal. Although after Mao left, no one in China had his credibility to massively mobilize people toward a designated goal, to some extent, Chinese people had been trained in mass movement. Since the economic reform started only a few years after Mao's death, the momentum of mass movement remained strong in Chinese society. Whenever opportunities were available, grass-roots people would act in a massive scale. Thus, in terms of mass participation in major social movements, a difference between Mao's era and the reform era was that in the later period, the actions of grass-roots people were more spontaneously driven by their own interests rather than followed the calls from the government.

On the government side, Mao's effort also formed a mentality that the actions of mass should be supported rather than restricted, as long as those actions are in line with the Party's goals. "Mass Line" is a basic approach of the CCP. In the process of economic

reform, the policies of Chinese government showed the influence of Mao's legacy for allowing grass-roots people freedoms in their actions that were not conflict with the Party's goals. The key features of reform in rural areas were to return the power of production to the peasants and allow them freedom to make their own decisions. It reflects the influence of Mao's belief that people themselves have enough initiative and wisdom to pursue certain goals if they are given opportunities (Gary, 1988:203).

Given the newly formed tradition in Chinese society and the supportive attitude of government, it can be expected that any major change in the society could easily follow the pattern of mass movement. This is exactly what has happened during the reform. Of course, some changes yielded positive outcomes and some did not. The development of Chinese rural enterprises is an example for good.

Grass-roots people have important impacts because not only they participated in great number but also enjoyed great autonomy in setting the direction and choosing path of development. Besides the practical reasons for and the tradition in the society favoring mass movement, a unique feature of Chinese society at that time also contributed to massive participation of grass-roots people. That is, Chinese central government did not have a clear idea regarding the directions and paths of reform. Therefore, the government was unable to direct changes and adopted an approach to let grass-roots people find solutions.

Two famous phrases of Deng Xiaoping in early 80's illustrated the situation. These two phrases virtually became the primary strategies of Chinese reform. First, Deng said that the reform was to "Mozhe Shitou Guohe." This phrase describes a situation that

there are rock steps to cross a river. Those steps are submerged by the water and cannot be seen from the surface. In order to find the way to cross the river, one has to uncover each step underneath the water through trial and error. Those who can manage to find all steps will successfully cross the river. This phrase gives a message that the route of reform does exist but no one knows where it is. People have to find it through their own actions. By saying so, the government actually delegated the responsibility of finding solutions to various practical problems to every Chinese and so did the autonomy to act.

Later on, Deng gave another phrase: "Qu Dahai Zhong Youyong (go swimming in the ocean)." This phrase went even farther than the first one. Swimming in the ocean is completely different from finding the rock steps to cross a river. It represents a much greater danger, challenge, and uncertainty. To a much greater extent, people have to rely on their own to survive and develop. By saying so, the central government let ordinary people to find the solutions to much tougher problems in the reform. As the reflection of this idea, in 1985, the Chinese government started to decrease or even relinquish financial support in many areas, such as education, science, art, and medical service. At meantime, people were given freedom to become economically independent. This move caused negative consequences in those areas. By contrast, rural people took the full advantage of newly acquired economic freedom and moved up through their own actions.

It is understandable that the ruling group in China did not have a clear idea about the direction and route of change. The Chinese situation is too complicated and there is no existing knowledge to apply. Although some people would laugh at Deng's behavior, the facts have proved that this was the right approach. People at grass-roots level did find

solutions to various problems, such as household responsibility system and rural enterprises. It is not a trivial action that Deng would admit his own deficiency in knowledge, given that he had insurmountable authority in Chinese society. When the familiar approaches of the CCP no longer worked, Deng accepted the fact. Because he himself could not come up with a revolutionary idea like what Mao did for Chinese revolution, he would not pretend that he knew everything and allowed people themselves to find the solutions.

Therefore, the situation of China in the economic reform determined that the actions of grass-roots people had critical impacts on major societal changes. Their action should be the focus of investigation in understanding the changes. As described by a prominent Chinese sociologist, Fei Xiaotong, the development of Chinese rural enterprises was "a great invention by Chinese peasants" (Cited in Yu & Huang, 1991:118). Deng himself also admitted that this phenomenon should be attributed to the actions of rural people rather than government officials.

Elitism perspective of investigation.

In analyzing the impact of people factor on the changes in Chinese society, elitism is a dominant perspective in the work done by both domestic and foreign scholars (Zhou, 1996). The elitism perspective focuses on the thoughts and actions of a small group of elite, who occupy the key positions in the society (Pareto, 1966; Prewitt & Stone, 1973). It views the non-elite mass as impotent and passive observers of changes in a society. It is the opposite to the perspective that emphasizes the contribution of grass-roots people. For

in the official propaganda by the Chinese government, the role of Deng Xiaoping is greatly emphasized. He is regarded as "the chief designer of the reform." As discussed in the previous section, however, his role is more like a sponsor who provides opportunities rather than a designer who set up the course of development.

The author has some direct contact with a group of intellectuals who were close to the center of decision making during the 80s. There was a consensus among themselves that they made critical contribution in finding and setting the right direction of reform. They regarded themselves as the hero of reform. This trend was manifested in various popular literary works at that time. For instance, a popular TV series "new star (xinxin)" and a novel "night and day (yeyuzhou)" by the members of that group depicted themselves as the movers of change. For the work done by the Western scholars, the emphasis of elitism is evident too. Zhou (1996) gave a summary in this regard. Besides enlarging the role of Deng Xiaoping, attention is also focused on the struggle between reformists and conservatives in the power center. The significant changes in Chinese society are mainly attributed to the effort of reform elite.

Not surprisingly, the elitism perspective enjoys a dominant position in explaining changes in a society. For it is a custom of intellectual thinking in both China and the other parts of the world. Confucius said more than two thousand years ago: "People can be allowed to follow but not to understand" (1980:81). It means that elite should have the exclusive privilege for operating the society because "People are the most inferior. They would not like to learn even if they were challenged by difficulties." (1980:177). In the West, the contribution of individual is always emphasized to explain changes. For

scholarly investigation, elitism is an important perspective in political science, economics, and history.

There are also other reasons why elitism is a widely adopted perspective of investigation about the changes in the contemporary Chinese society. The history of the CCP shows that grass-roots people generally followed what was proposed by the Party elite. Enlightening and wakening people is a primary goal of the Party. This is true in other CPs as well. The classic communist technique is to educate and organize grass-roots people to act according to the agenda set by party elite. Furthermore, state planing is the major form of economic activity in socialist countries which provides the members of elite groups with great power to control and operate a society. Given these historical backgrounds of the CCP and socialist countries, people would naturally think that China in the post-Mao era still follows the similar pattern though this was no longer true.

Unfortunately, for studying Chinese rural enterprises, an elitism perspective is problematic and misleading. As the previous discussion suggested, the contribution of elite in this phenomenon was limited. Their roles were more permissive and reactive than directive and proactive. For so-called "reformist intellectual" who wanted to introduce the Western style social and economic systems into China, their contribution to this phenomenon was even more limited, if not negative. Many of their suggestions and actions were out of the context of Chinese situation and actually produced negative consequences. For instance, in the mid-80, those reformist elites promoted the strategy of stimulating consumption to promote production and their suggestions were adopted by the government. Then the weak economical base of the nation could not sustain a

consuming frenzy of one billion people. This strategy caused a run-away inflation that was put under control just recently.

An interesting comparison arises between the reform of China and Soviet Union. Gorbachev also had a phrase that used to be widely circulated among Chinese reformist elites in mid-80s: "One can only take one jump over an abyss." By saying so, he denied progressive approaches of change. A reform attempt should change everything fundamentally and instantly or nothing can be changed at all. One lives if the reform succeeds or one dies if fails. To live or to die, there is no middle point. Also the right way is Gorbachev's way and the right technique to achieve the goal is Gorbachev's technique. Grass-roots people should follow what the elite designed for them. Influenced by this idea, Soviet elites with the assistance of American elites formed "Harvard Plan" and conducted "Comma Therapy" that send the Soviet Union into a hell (Sheng & Yu, 1993).

Chinese elites at that time envied their Soviet counterparts greatly. They wanted to try the same strategy of radical and westernized change in China but were not able to do so. Deng believed that he didn't have enough knowledge to solve the practical problems of reform. So he let grass-roots people themselves to find solutions and was confident in their potentials. Without the backing of the highest authority, the reformist elites in China could do little to impose their wills on grass-roots people. By contrast, Gorbachev was confident in his own capability of solving the problems in the Soviet Union. Thus, the Soviet elite had much greater freedom to try out their ideas in their own country and on their own people. Now, the reality showed that Gorbachev and the Soviet elites actually knew little about how to solve problems. Their ideas and techniques are way off the

reality of their country. As result, the grass-roots people in Russia and other republics of the former Soviet Union have to rely on themselves to move out the mess created by the elite group. It is really a blessing to China that the Chinese reformist elites could do little at that time. In fact, an elitism perspective is more suitable to explain the failure of reform in the former Soviet Union rather than the success of rural enterprises in China.

Rural entrepreneurs as the focal point.

Given that this study adopts the notion that people are the determining factors in societal changes and the actions of grass-roots people should be the focus of investigation, then the question would be which group of grass-roots people to focus on? For people who have direct associations with Chinese rural enterprises are from all avenues of life. They include local government officials, rural entrepreneurs, labor workers, technical and managerial personnel from state enterprises, central government officials, and scholars in various fields. Those people all made significant contributions. For people at the grass-roots level, three groups have the closest associations: local government officials (at county, township, xiang, and village levels), rural entrepreneurs, and labor workers.

This study will focus on the actions of rural entrepreneurs. Such a decision is made because the operation of Chinese rural enterprises primarily falls in the category of entrepreneurial activity. First of all, this phenomenon mainly consists of newly established businesses. Most companies were established after 1978, particularly after 1984 (See Table 1.1). Second, most rural enterprises were established by individuals from

scratch and started at very low levels in terms of technological sophistication, capital investment, and product development. The activities in setting up business from scratch are significantly different from those by the investment of the government or other well-established business organizations, such as state owned enterprises or multinational corporations.. In the former case, the management had to search for and organize all necessary resources to form a business. While in the later case, those who were in charge of setting up a business are primarily responsible for managing the existing resources. Even for a collective enterprise that a township or village government supposedly were obliged to provide some support, the responsibility of searching for resources still belong to those who are practically in charge of the business. Third, for newly established companies, their operations were less affected by bureaucratic procedures than those of well-established business organizations. Market demand is the primary factor to determine the behavior of management. Being highly responsive to market conditions is a distinctive feature of entrepreneurial activities. Finally, for many rural enterprises, their managers were also the founders.

Those features suggest that people who involved in setting up and operating rural enterprises were entrepreneurs in a true term. An entrepreneur is often equal to a small or medium business owner or founder (Bonnett & Furnham, 1991), "an individual who creates a business where none previously existed" (Soslow, 1966). In a broader term, an entrepreneur is "an innovator, and opportunist in the sense of attempting things not previously undertaken or in ways not previously explored" (Gibb, 1987). To set up and operate a business, an entrepreneur needs to a) make decision under an uncertain situation



in which few known procedures can be applied and risks of failure exist; b) do things in an innovative or better way, compared with the existing standard; c) assume individual responsibility that let him/her to take credit for success and accept blame for failure in business operation; d) constantly monitor one's own performance against some measurable standard to correct the course of actions; e) and make long-range planning to maximize gain and minimize loss (McClelland, 1961). Obviously, the creation and operation of a Chinese rural enterprise are by definition entrepreneurial activities.

Furthermore, the importance of rural entrepreneurs in understanding the development of Chinese rural enterprises also lies on the fact that they are the links of all other major elements of business operations. "They promoted the combination of existing potential factors for industrial productive forces in the rural areas and formed an elementary industrial productivity" (Fei, 1989:200). It is through the actions of entrepreneurs that favorite business environment, high quality labor force, rich natural resources, and promising market opportunities are turned into valuable commodities. Without going through an entrepreneur, all favorable conditions can only remain as potentials but reality.

For instance, the actions of local government officials were a key to create a mini business environment in their communities which might differ significantly from the macro environment of the whole nation. Depending on the practices of local officials, a mini environment can be either favorable or unfavorable to local businesses, e.g., whether it can serve as a shield to block the influences of some unfavorable policies from the higher level government or protect some particular business practice that might not be

acceptable by higher authority. A favorable local environment is a critical precondition of development but it cannot convert into products by itself. Entrepreneurs have to take actions to realize its potential. As early as in 1981, Jinjiang government allowed a much greater freedom for business activities within their jurisdiction, such as permitting private businesses to hire workers (Chen, 1992). Then Jinjiang entrepreneurs took the opportunities to set up their businesses. Their actions resulted in the explosive growth of rural enterprises in that area. This example shows that how a newly emerged business opportunity is transformed into reality through the actions of rural entrepreneurs. If those actions were left out of analysis, it will be hard to get a complete picture to show how the efforts of local government officials are linked to the development of rural enterprises in that area.

This rationale can also be used for analyzing the contribution of ordinary labor workers. Their importance is obvious because it is through their actions that a production circle completes. Chinese peasants are known for their many merits formed through the influence of Chinese cultural, arduous agricultural work, and subsistent living conditions, such as industrious, devoting, pragmatic, simple, frugal, and the ability of enduring harsh working conditions. I had visited many rural enterprises in the three main research sites and was deeply impressed by the work accomplished by those ordinary peasants. For instance, in a shoe factory in Jinjiang City, woman workers manually assembled shoes in such a higher speed that I think could compete with a machine. There were also many companies in which people worked under poor working and living conditions that might not be tolerable by other people, such as urban residents. If there are not enough people

who would work industriously under difficult conditions, it is impossible that Chinese rural enterprises can develop to a massive scale.

While admitting the importance of labor workers, the other side of the story should be addressed as well. It is through the actions of entrepreneurs that labor workers are linked to other key elements of business operation, such as machine, supplies, production sites, and markets. As labor workers, the practical value of their merits can only be manifested in the business activities organized by entrepreneurs.

During my interviewing with rural entrepreneurs, they often spent a significant amount of time to discuss with me about their products and showed strong passion to their products. Then, as my understanding of their businesses deepening, I started to realize that an entrepreneur's product was not what his/her company produced but the company that he/she had created and was operating. An entrepreneur's actions are directly involve in creating and operating a company rather than producing commodities. In this sense, a company can be viewed as a machine produced and maintained by an entrepreneur that is able to process various elements of business operation to make products sold in the markets. Given the purpose of this study, it is reasonable to contend that those who are directly responsible for the creation and operation of rural enterprises should be at the center of analysis. Those people are Chinese rural entrepreneurs.

2. Conceptual issues in investigating people's actions.

The joint effect of personal and environmental factors

Because the actions of rural entrepreneurs will be the focal point to understand the development of Chinese rural enterprises, then a question would be how their actions should be analyzed. To address this issue, I follow a commonly acknowledged principle that personal and environmental factors are the two independent sets of behavioral determinants (Fiedler, 1967; Holland, 1973; Pfeffer & Salancik, 1978; Atkinson, 1983; Parsons, 1968; Weiner, 1986). Lewin's (1935) formula $B=f(P,E)$ presents a graceful summary of this principle, in which, B stands for behavior, P for person, and E for environment.

This principle suggests that personal and environmental factors have to be investigated simultaneously for understanding any given behavior. Unfortunately, the common practice of investigation often focuses on one set of factors, either personal or environmental, but not both. For instance, the mainstream psychological perspective would focus on the individual difference to explain human behavior, whereas the mainstream sociological perspective would focus on the influence of society, and the same as the thoughts of mainstream economics that focuses on the economic factors. The studies from these perspectives contribute significantly to in-depth understanding of the impacts of either individual differences or social or economic forces on human behavior. Nonetheless, because of the absence of the other set of factors, the findings can at the best reveal the partial pictures of a whole story.

For investigating Chinese rural enterprises, an overwhelming trend in existing literature is to focus on the impacts of environmental factors. For instance, as discussed in Chapter One, the attention is mainly on the role of government policies, the personal contribution of Deng Xiaopin, the structure of economic system, the market conditions, the tradition of commercial activities in local communities, and geographic closeness to major industrial centers. Those factors no doubt played important roles in the development of Chinese rural enterprises. As suggested by the general principle, however, they are not the only conditions for people's actions. Whether people would take specific actions toward a designated goal is also affected by their personal characteristics. Some Chinese scholars recognized this issue as well (e.g., Cao, 1994; Tao, 1988)

To achieve a comprehensive understanding of human actions, entrepreneurial activities in this study, it is necessary to investigate the effects of both personal and environmental factors as well as the interactive process between the two. As indicated in Chapter One, following the general principle, a balanced perspective will be adopted in this study. It combines the sociological and psychological traditions of investigation. The social context, behavioral surroundings, and individual differences will be investigated in terms of their impacts on the actions of Chinese rural entrepreneurs.

Among these two sets of behavioral determinants, personal factors are the internal conditions of behavior (Weiner, 1986) or the internal causes (Mao, 1938b). Motive and ability are two major subsets of this category. These two sets variables are related to whether one wants and can undertake a specific action towards a specific goal. Environmental factors are external conditions or external causes. It determines whether

there are opportunities for behavioral potential to be transformed into real actions and whether these actions can be sustained in terms of the supply of necessary material conditions (Peters & O'Connor, 1980). This category covers a wide range of variables. For instance, variables at macro levels include social, economic, and political systems, the level of economic development of a nation, and the cultural orientation of a society. At medium levels, they include the policies of local government, the value orientation of local community, and the conditions of local resources. Finally, micro level environmental factors may include the size of one's family, the physical arrangement of work setting, the quality of peers' work-related knowledge, and other work-related supporting network.

A behavioral process usually covers a certain time span and passes several stages. It includes building up behavioral potentials, starting overt behavior, sustaining a particular action, and the cessation of actions. The application of this general principle should cover the complete process of any given action. In the case of Chinese rural entrepreneurs' actions, the analysis will touch the impacts of personal and environmental factors on the behavioral potentials before the economic reform when opportunities for entrepreneurial activities were suppressed. Also how their actions in setting up and operating their businesses are triggered and sustained will be analyzed in terms of impacts of these two sets of behavioral determinants. For instance, after the economic reform, rural people showed extraordinary eagerness in rural non-agricultural productions. The magnitude of their eagerness suggested that it cannot be acquired overnight. There has to be a period of accumulation. To understand that process, the conditions of Chinese

society before the economic reform and psychological characteristics of Chinese rural people need to be investigated.

Furthermore, this principle can be applied to study the impact or the consequence of any particular action as well. For the effect of personal factors on behavioral outcomes, Atkinson (1983) explicitly suggests that the level of performance depends on ability X efficiency, and the latter is influenced by the strength of motivation. On the environmental side, the effectiveness of a top manager's behavior in pursuing organizational goals could be affected by the availability of needed resources (Pfeffer & Salancik, 1978; Fiedler, 1986). The importance of explaining the consequence of human behavior through the joint effect of these three factors is acknowledged by others as well (e.g., Colarelli et al., 1987; Blumberg & Pringle, 1982; Guastello, 1987).

The principle that human behavior is jointly affected by personal and environmental factors will be the foundation of this study. It will be followed throughout and will cover the analysis of whole behavioral process, from behavioral potential, to overt actions, and to behavioral outcomes.

A practical concern: Internal cause as the determining factor.

An elaboration of the general principle of human behavior is provided by Mao Zedong. While admitting the importance of both, Mao weighs the impact of personal factors much more heavily than that of environmental factors. This is an important philosophical foundation of his belief that people are the determining factors for changes in a society. In his famous philosophical essay, *On Contradiction*, Mao wrote:

Dialectic materialism holds that external causes are the conditions of changes and internal causes are the determinants of changes. The impacts of external causes can only be realized through the interaction with internal causes. An egg can be turned into a chick if the temperature of its surroundings is at an optimal level. But a piece of rock (even if it was egg-shaped, the author added) cannot be turned into a chick regardless the temperature of its surrounding because its internal structure is fundamentally different from that of an egg (1937b:277).

For analyzing the success or failure of one's effort to achieve an behavioral outcome, this proposition suggests that favorable external support alone can never produce any expected change as long as the internal conditions of people do not reach an optimal level. In other words, one has to be motivated and to possess required ability for an action to take place and progress. The reverse of this proposition is not necessarily true. To some extent, a strong willed person with optimal level of ability can overcome barriers caused by unfavorable external conditions. The history of CCP's struggle against its enemies typically demonstrates how difficult situations were transformed into opportunities by people's extraordinary effort. For instance, during the Long March (1935-1936), the Chinese Red Army displayed unprecedented courage under unimaginable difficult conditions and finally reached their destination. This phenomenon can also be observed in the development of Chinese rural enterprises, as the discussion in the later chapters will show.

There is also a practical reason to emphasize the determining effect of internal causes. In reality, the limit imposed upon by environmental factors often remains as an unknown until tested by people's actions. People have to act first. Then they may tell the possibility of success. To take action is the very first step leading to success. Without

action, the possibility of success is zero. The traditional Chinese wisdom says: "Jinrenshi er xingtianmin (try one's best to see whether the opportunity is there)." This phrase summarizes that in the case the path to success is unknown, one has to act first if success is desired. The similar idea can be found in psychological literature. "Learned helplessness" describes a phenomenon that the past experience in an uncontrollable situation inhibits one's initiative to escape a harmful situation (Peterson, 1982). A proposed technique to overcome the inhibit effect of the past experience is to engender an expectation that outcome is contingent on response (Seligman et al., 1968). In essence, if one is not motivated to make a try, it is very difficult to be released from the inhibition effect.

Furthermore, this practical reason can be applied to analyze the relation between ability and motivation as well. For the same token, the limit imposed by one's ability for achieving the expected outcome of his/her effort often remains an unknown until being tested in action. If one would not take an action first, there is no way to tell whether he/she can accomplish certain goals. In Chinese culture, to encourage popular participation in achieving a challenging goal, a common practice is to psychologically lower the ability requirement. For instance, SHENGREN (a person who has achieved the highest moral standard) is the goal that Confucius encouraged everyone to strive for. In order to promote people to act in this direction, Mengzi, who is regarded as only the second to Confucius, said that "everybody can be Shengren". The most popular Buddhist school in China, Zen, also advocates the same ideas: "Everyone can be the Buddha." (Huineng, the founding father of Zen). Obviously, not everyone can be a SHENGREN or

the Buddha. If one takes actions to try, however, he/she will definitely get closer to that goal.

For illustrating the determining effect of internal cause of change, Confucius himself sets a great model of testing the limits of environmental conditions through his own actions. He persistently promoted his vision of an ideal human society though few paid attention to him. People at that time called him "a person who tried to do the impossible" (Confucius, 1980:157) Nonetheless, the result of his persistent effort is the birth of the most profound ideological and cultural tradition of the world.

The notion that internal causes have the determining impacts in change is particularly useful in this study, given the conditions under which Chinese rural enterprises developed. In most cases, Chinese rural entrepreneurs started their endeavors with no known paths of development. They had to take actions in face of great uncertainty and strive for success. Furthermore, because the material conditions of development were very poor, people had to remedy the deficiency by making extraordinary effort. Consequently, the importance of internal cause in determining people's behavior increases.

Defining environmental factors

For studying the impact of environmental and personal factors on human behavior, a conceptually clear definition is critical to identify the valid research subject. While the definitions of personal factors (such as motive and ability) in existing literature are generally satisfactory, the definition of environmental factors appears problematic.

To define environmental factors, a basic requirement is that a definition must draw a clear boundary to keep this construct as a distinctive and independent set of variables from personal factors, such as motivation and ability. It should reflect the commonly accepted view that environmental and personal factors are two distinctive and independent sets of variables. By distinctive and independent, it means that changes in one set of variables should not be associated with or cause changes in the other set. Conceptually, the environmental factors identified by a definition should not be contaminated by personal factors. Or their impacts on human actions cannot be considered as primarily environmental. Furthermore, for practical concern, the conceptual boundary should be operationalized without significant difficulties.

Judged by these requirements, the definitions appeared in many literature (e.g., Kulka, 1979; Wicker, 1992; Peters & O'Connor, 1980) are not satisfactory since they usually do not provide such a boundary that separates environmental factors from personal factors. Conceptually, they are unable to prevent the intended target variables from being contaminated. Also, they are hard to be operationalized. These conceptual weaknesses are partly responsible for the fact that environmental factors do not receive enough attentions comparable to their importance in understanding human behavior. For without a valid definition, it is difficult to identify and select a valid research target.

To identify valid targets is a basic requirement for a valid research. If the targets are invalid, the findings will have little theoretical and practical values. In this section, a definition of environmental factor is proposed that accommodates these requirements. The primary goal is to establish a clear boundary between personal and environmental

factors. This definition will guide the selection and measurement of environmental factors in this study.

DEFINITION: An environmental factor is an object in a behavioral context whose existence, both qualitative and quantitative, cannot be changed by changing the personal factors of the actor.

Several elements in this definition need further explanation. First, the behavioral context supplies the information, energy, restrictions, and other resources that are necessary to complete a behavioral process. For the study of human behavior, the behavioral context is one of the two major focal points. The other is the actor who bears the behavior. By specifying that the location of a factor is in a behavioral context, it implies that, the change of a given environmental factor should cause or be associated with the change of specific human behavior. The concomitant of this sort is a precondition to investigate the effects of environmental factors on human behavior.

Second, the clause that environmental factors cannot be changed by changing the personal factors of the actor is to operationalize the idea of beyond individual or volitional control in defining environmental factors (e.g., Peters & O'Connor, 1980; Rotter, 1966; Weiner, 1985). For identifying environmental factors, what implied by the concept beyond individual control should not include any actions to the intended objects. Once an individual takes an action, no matter how trivial the effect is, he can change the object to a certain degree. Therefore, an individual does have control over the objects if

he takes actions. Moreover, people's actions are dependent variables for investigation. If they are included in judging the environmental factors, they become independent or mediating variables as well. Then the analysis falls into a conceptual impasse. In the proposed definition, the concept of beyond individual control is operationalized that the change in personal factors should not cause or be associated with the change in environmental factors. The actor cannot exert any influences on environmental factors by changing the level of one's ability, or motive, or both. This is in line with the view that environmental and personal factors are two independent sets of behavior determinants.

The third element of this definition completes the task of operationalizing the concept of beyond individual control. It specifies the aspect of an environmental factor that an individual cannot control, given that no direct actions involved. That is, what remains unaffected when the actor changes his personal factors is the existence of an environmental factor, both qualitative and quantitative. By doing so, the conceptual boundary between environmental and personal factors can be operationalized. Intuitively, it is not hard to see that the change in the existence of an environmental factor will not be associated with or caused by the actors as long as no direct actions involved. The emphasis on existence also reflects the fundamental purpose of studying environmental factors. What we are interested in is how their existence or presence in a behavioral context affect human behavior.

Another purpose of the third element is to separate the impact of an environmental factor on an action from its existence. For it often happens that people would consider its impact as beyond individual control. This is not what happens in reality. The impact of an

environmental factor on a specific action is related not only to its existence, but also to the conditions of personal factors of the actor. The change in personal factors definitely causes change in its impact. For instance, for one hundred dollars, one might buy a lot of food if he is very hungry or he might buy a concert ticket if he admires a famous performer. Here, the existence of one hundred dollars will not change no matter whether one has been deprived food for a long time of period or he admires that performer. On the other hand, the impact of one hundred dollars on one's behavior does change when his interest shifts. In the case of Chinese rural entrepreneurs' actions, many of them succeeded under the conditions that other people would think impossible (White, 1988). What makes the difference under the same environmental conditions is that successful rural entrepreneurs were strongly motivated and work smartly.

3. Personal and environmental conditions of entrepreneurial activities

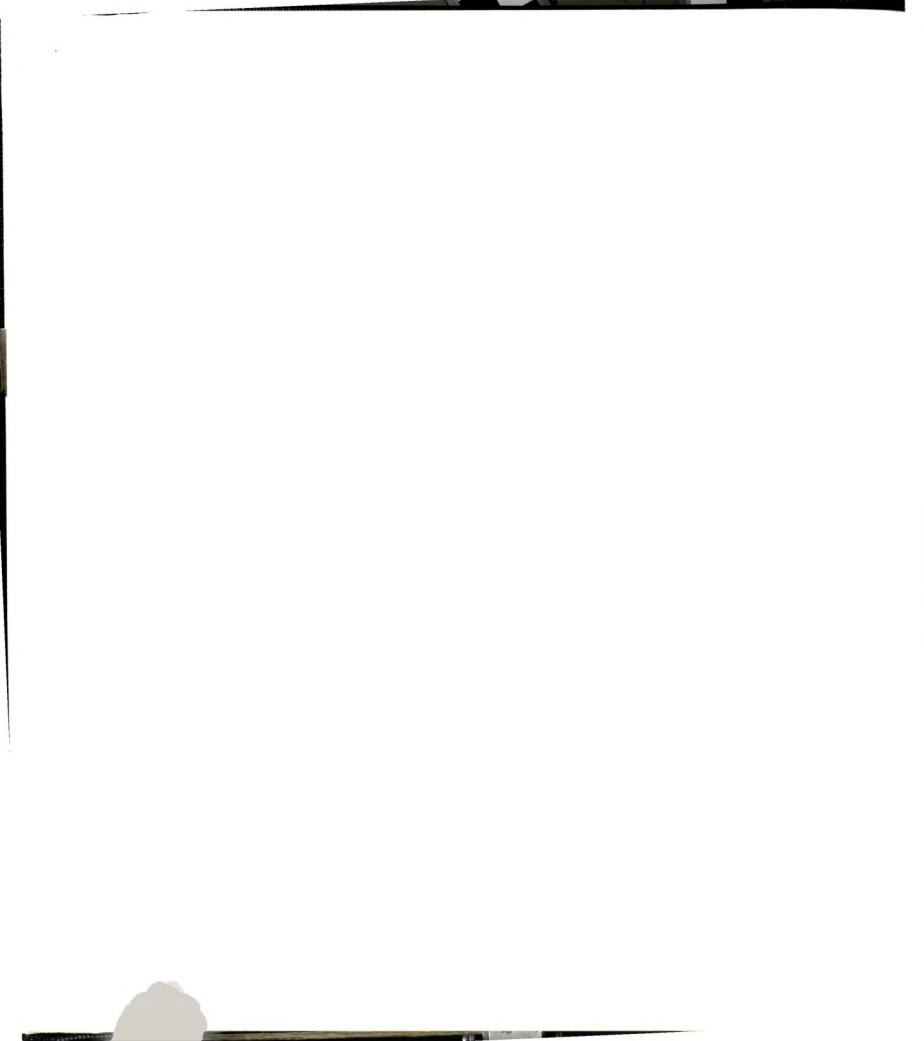
The discussions so far has built a conceptual framework in which people's actions, especially the actions of rural entrepreneurs, were considered critical to understand the development of Chinese rural enterprises. It also emphasizes the importance to simultaneously investigate the impacts of both personal and environmental factors in analyzing the actions of rural entrepreneurs. The next conceptual issue to discuss will be the specific personal and environmental factors to be investigated. The discussion will start with the role requirements of entrepreneurial positions. Then personal and environmental conditions for people to effectively perform entrepreneurial tasks will be

addressed. The relevance of entrepreneurship to business success and economic development will also be discussed in the process.

Entrepreneurial role requirements.

The key features of entrepreneurship are the desire and ability of actively searching for and exploring existing resources for economic gain. An entrepreneurial role includes perception of new economic opportunities and acquisition of relevant resources for realizing them (Redding, 1986). Entrepreneur should also be future oriented (Gerschenkron, 1966), favor competition (Holland, 1973), and be sensitive to technology and information.

A comprehensive analysis of entrepreneurial role requirements is provided by McClelland (1961:Ch.6). First, the entrepreneurial role calls for "decision-making under uncertainty." If there is no significant uncertainty, if the action called for involves applying a known procedure, however complicated, to produce a known and predictable result, then entrepreneurship cannot be said to be involved. Second, the entrepreneurial role involves almost by definition doing things in a new and better way. This is the chief way in which the distinction can be made between holding entrepreneurial status and fulfilling the entrepreneurial role (Redlich, 1958). Third, individual responsibility is assumed to be the requirement of an entrepreneurial role. "Responsibility of this sort implies individualism. It is not tolerable unless it embraces both credits for successes and blame for failures, and leave the individual free to claim or accept the consequences, whatever they may be" (Sutton, 1954). Fourth, an entrepreneur ordinarily has definite



concrete knowledge as to whether he has done a good job, or made a series of correct decisions. Fifth, long-range planning and organizational abilities both relate to the planning activities of the entrepreneur. Theoretically an economic agent should consider all the alternatives facing him, rank them in order of utility, and choose the course of action that maximized this utility. However, in reality, "for one, the actor does not really know all the alternatives, he must find them out, and for this purpose, a period of search is necessary. Secondly, the actor does not know all the consequences, and he has neither the time nor the skill to figure them out." (Lazarsfeld, 1959:23). The successful entrepreneur in these terms is by definition someone who considers more alternatives and their consequences before they actually happen to him. He anticipates future possibilities. These role requirements of entrepreneurship are acknowledged by others as well (e.g., Miner, 1989)

In terms of these role requirements, McClelland conceptualized five characteristics of entrepreneurship: 1. moderate risk-taking as a function of skill not chance; 2. energetic and/or novel instrumental activity; 3. individual responsibility; 4. knowledge of results of decisions; 5. and anticipation of future possibilities.

Furthermore, to be a successful entrepreneur, one also need to demonstrate commitment to others and value the importance of business relationships (McClelland, 1987). Entrepreneurial tasks typically involve satisfying others' demands, maintaining favorable relationship with the parties that hold critical resources for business operation, and keeping a group of people working together to achieving business goals. The

importance of these requirements are due to the fact that interpersonal relation is heavily involved in business operations.

Need for achievement, general intelligence, and entrepreneurial success

As discussed in the previous section, motive and ability are the two major subsets of personal factors. Atkinson (1966) defines a need or a motive as a disposition to strive for a certain kind of satisfaction and the capacity for satisfaction in the attainment of a certain class of incentives. A particular need, then can only be satisfied with a particular class of incentives. For instance, hunger can be satisfied by eating food, but not by watching food. The functions of a motive are to "drive, orient, and select behavior" (McClelland, 1985). Or in other words, a specific motive determines whether one intrinsically wants to take and persists on particular actions that can lead the person to some state of satisfaction for the attainment of expected goals. For entrepreneurial activities, what drives and sustains entrepreneurs to perform actions that are necessary for business success is a motive called need for achievement (n Ach).

Given the role requirements of entrepreneurship, McClelland (1961) noticed that they match a specific class of incentives that are attractive to people with high level of need for achievement (n Ach). N Ach is a disposition to strive for achievement satisfaction and a capacity for satisfaction in the attainment of achievement incentives. It is typically relevant to behavior of meeting some standard of excellence and doing something better (Baron, 1991; McClelland, 1985). As the logical extension of doing something better, the opportunities to perform tasks that involve individual responsibility,

obtain performance feedback, and work innovatively are achievement incentives too. Because if one cannot be held personally responsible for behavioral outcome, he/she will not be able to take credit for what has been accomplished. Then the person cannot experience intrinsic satisfaction from performing certain tasks. Furthermore, without performance feedback, one cannot achieve a sense of doing better because it is hard to tell what has been accomplished. Finally, doing something better often implies working innovatively. To summarize, the achievement incentives include opportunities of moderate risk taking, obtaining performance feedback, working innovatively, doing better judged by a standard of excellence, and assuming personal responsibility for decisions made.

It is evident that achievement incentives match well with the entrepreneurial role requirements summarized previously, which means that once opportunities are available, people with higher n Ach would more likely to make voluntary effort and try to enter entrepreneurial occupations. Also because entrepreneurial activities fit the interests of high n Ach people, they are more energetic in the entrepreneurial role, therefore, more likely to be proactive and take initiative in fulfilling the role requirements. Consequently, those people are more likely to be successful entrepreneurs. These theoretical propositions have been supported in various empirical studies (Miner, 1989; Rahman, 1988; Bonnett, 1991, McClelland & Winter, 1969).

McClelland's discussion of n Ach and entrepreneurship is not limited at individual level. He also explored how the collective level of n Ach in a society affected economic development. In "Achieving Society" (1961), based on the analysis of the impact of n

Ach on entrepreneurial activities, he contended that a society with a higher level of collective n Ach would produce more energetic entrepreneurs who, in turn, produce more rapid economic development. To some extent, one can predict the economic growth in a society from its average level of n Ach. The relevance of entrepreneurship to economic development is obvious. For economic growth is in fact the collective expression of how each individual business performs. In a society where entrepreneurship can be fully practiced and people have strong entrepreneurial orientation, there should be a great number of successful entrepreneurs. Consequently, the economy should grow faster. This notion provides a conceptual base to link the success of individual entrepreneurs to the economic growth in a society, which has an important implication to this study given that the development of rural enterprises had significant impacts of the nation's economy.

Ability is another set of personal factors that determines behavior. In this regard, one's general intelligence can be a critical variable in entrepreneurial activities. The importance of this variable is due to the nature of tasks that Chinese rural entrepreneurs have to perform. General intelligence is "ability to learn and understand or to deal with a new or trying situation." It is one's "relative intellectual capacity." (The New Merriam-Webster Dictionary, 1989). Various intelligence tests assess this factor in various degree, such as Stanford-Binet test and Raven Progressive Matrix. Akerman (1986, 1989) suggests that general intelligence is particularly important in dealing with novel tasks. It affects performance by influencing both the quantity and the quality of information acquired, the quality of strategies to deal with a novel situation (Hunter, 1986), and the level of acquired skills. As task complexity, novelty, and inconsistency increase, general



intelligence increases in importance (Akerman, 1990). For the top managers of Chinese rural enterprises, to set up and operate non-agricultural enterprises is a new experience to most of them (Lin, 1990; Zhang & Zu, 1988). The unpredictability of government policies, the transition social and economic environment, and the incomplete market mechanism further complicate their tasks. Under such conditions, it is reasonable to expect that general intelligence may have significant impact on the actions of Chinese rural entrepreneurs.

Society, business environment, and entrepreneurial activities.

In terms of the axiom presented at the beginning of this chapter, no business success can be achieved if people have no opportunities to act. If people are not allowed or prevented from working on entrepreneurial activities, few can enter entrepreneurial occupations even though there might be a great number of people who possess optimal levels of personal characteristics as competent entrepreneurs. The social, political, cultural, and economical conditions of a society all contribute to the opportunities. The particular environmental factors to be investigated in this study are selected in terms of what are required for Chinese rural entrepreneurs to operate their businesses.

For instance, the political conditions are important factors to determine the opportunities for entrepreneurial activities in China. Before the economic reform, it was politically incorrect to operate a business under market mechanism, not to mention setting up a business to meet market demands. Such a practice was viewed as the key feature of a capitalist society and should not have a position in a socialist society. One could be



charged as a criminal if he/she attempted to establish a private enterprise, as a typical entrepreneur would do. Thus, in the pre-reform China, the opportunity for choosing an entrepreneurial occupation or act entrepreneurially in business operation virtually did not exist. Under such circumstance, obviously no one can be a successful entrepreneur. Not until after 1978, the political climate became more and more permissive and tolerant for entrepreneurial activities. The change of political conditions helped to remove the political taboo, created opportunities for actions, and paved the way for the rapid development of Chinese rural enterprises.

The economic system of a society also determines whether one could enter an entrepreneurial position and act accordingly. In a planned economy, even the opportunities for acting entrepreneurially in business operation were restricted. The main task of a top manager in a planned economy is to deal with various technical problems to fulfill the production quota assigned by the central government (Zimbalist et al., 1989). It is not the task of a top manager to worry about whether the factory can make its living and keep growth through production. Chinese state-owned enterprises behaved similarly before and even after the economic reform (Shi, 1991). If a society is dominated by a planned economy, there are few opportunities for individuals who are high in n Ach to practice their entrepreneurial potential. For people in management positions are selected through bureaucratic channels rather than the survivors of business competition. Similar situations can be found in giant companies as well where business operations are more guided by bureaucratic regulations and less entrepreneurially oriented.

Resource availability is another important condition determines opportunities for entrepreneurial success (Pfeffer & Salancik, 1978; Fiedler, 1986). The fundamental features that characterize the tasks of an entrepreneur are the perception of new economic opportunities and the acquisition of relevant resources for realizing them (Redding, 1986). Obviously, without proper supply of resources, a business cannot be started and an operation cannot be sustained. As what a popular Chinese wisdom expresses: "a very smart woman cannot cook a meal without rice." As a supportive evidence to this argument, the types of business that rural entrepreneurs would engage in usually reflect the types of resources to which they had access. This is particularly true at the early stage of development. For instance, extensive overseas Chinese connection helped the development of shoe and garment industries in Jinjiang City (Zheng, 1994:169; Shi,1988:10). The closeness to major industrial centers is an important factor that has shaped the rural enterprises in Jiangnan areas (Tao, 1988). In this study, the concept of resource covers a wide range of factors that are necessary for business operation, such as, raw material, channels to access market, technology, quality labor force, capital, and social network.

In the development of Chinese rural enterprises, the actions of rural entrepreneurs may also be affected by the policies of local government as well. An important feature in the development of rural enterprises was the active involvement of local government (Song & Du, 1990; Tao, 1988). To a large degree, local government policies and actions determined the boundary for the actions of rural entrepreneurs in operating their businesses within the local community. Local governments were able to do so because

they have substantial autonomy within their jurisdictions. They can create a mini business environment in local communities more or less favorable than the macro conditions affected by the central government. For instance, whether collective or private business can have a dominant position in a local community is largely determined by the policy of local government.

The above discussion presented examples of environmental conditions that may affect the actions of Chinese rural entrepreneurs. There are also other factors need to be investigated. For instance, market demands and supply conditions obviously had significant impact on how rural entrepreneurs operate their businesses and so did the characteristics of competitors in the market. In particularly, the investigation in this study will focus on environmental factors that affect the opportunities for entrepreneurial activities, such as political climate, government policies, economy system of a society, occupational preference determined by the societal value and tradition, resource base for entrepreneurial operation, and market conditions. The analysis of environmental factors that affect the actions of Chinese rural entrepreneurs will cover variables at both macro and micro levels.

The applicability of McClelland's theory in understanding Chinese rural enterprises.

The discussion of this section frequently cited McClelland's theory on achievement motive, entrepreneurship, and economic development. A question may be raised that whether his theory is applicable in explaining the economic success and entrepreneurial activities in Chinese society. One plausible argument against its

application is to emphasize the cultural differences. Many people have raised this issue with me. They contended that the theory of achievement motive mainly reflects the individualistic value orientation of the Western cultures. The core of individualism is giving priority to the goals of individual over those of in-groups. It emphasizes serving the self by making the self feel good, be distinguished, and be independent. In contrast, the Chinese culture has a strong collectivist orientation (Triandis et al, 1990; Lockett, 1988; Ralston et al., 1992). A collectivist culture emphasizes in-group by subordinating personal goals for the sake of preserving in-group integrity, interdependence of members, and harmonious relationship (Triandis et al., 1988; Schwartz, 1990).

Given the cultural differences, one might conclude that n Ach can only be satisfied in an individualistic society. For instance, personal responsibility is hard to be materialized if the decisions have to be made by several persons. Doing something better, meeting some standards of excellence, or being innovative often means being distinguished from and competing with other peoples. That are supposedly discouraged in a collectivist culture. Thus, people in a collectivist culture are less likely to display achievement behavior. Following this logic, since the Chinese culture is a typical collectivist culture, McClelland's work on entrepreneurship may not be applicable in China.

There are several ways to argue against this claim. First, the entrepreneurial role requirements are determined by the specific tasks that an entrepreneur has to perform rather than the value orientation of a specific society. Conceptually, they should be the same across cultures. For instance, in a market economy, one has to make enough profit



to maintain the daily operation of his company. Therefore, the person has to engage in the activities with some degree of uncertainty; to do things innovatively or better to surpass the competitors; to collect information about his performance for adjusting the course of action; to take personal responsibility for the consequence of decisions he has made since no one else would share with him; and to make plans to cope with the possible events in the future. Given these basic tasks, it is hard to imagine that people in different cultural settings conduct their business in fundamentally different ways.

Entrepreneurial behavior, also achievement behavior in general, typically is neither a one-time choice between courses of action nor a high level of attentional effort to a single task (Kanfer, 1990). It consists of a series of actions that involves periodic adjustment of the course of action and the amount of effort in a long process. This type of behavior often has its functionally determined requirements that an actor must follow. The course of action for achievement behavior is less affected by situational conditions than many one-shot behavior. McClelland (1961) and others (Bonnett, 1991; Rahman, 1988) found that the positive relation between n Ach and entrepreneurial performance stands across cultures. Those findings suggest that the practice of entrepreneurship have its own built-in characteristics that to some extent are immune to cultural influences.

In a study about five dragons of East Asia, Redding (1986: 204) identifies the Eastern entrepreneurial role as: perception of a new economic opportunity; evaluation of the profitability of a new opportunity; gaining command of financial resources; plant design, technology, and construction supervision; recruiting and training new personnel; dealing with government; and dealing with suppliers and purchasers. In essence, this list

is compatible with McClelland's analysis of entrepreneurial role requirements. First it implies the individual responsibility of an entrepreneur in making decisions to pursue economic opportunity. Second, perception of a new economic opportunity is equivalent to being innovative and to taking moderate risk. Third, evaluation of the profitability of a new opportunity is future oriented. Finally, the rest of the list can be classified into organizational skill category.

Besides the conceptual reasons, the current social and economical conditions in China are particularly suitable for applying McClelland's theory. Following Max Weber's tradition, McClelland advocates a psychological explanation of economic development (1961). He believes that the sources of change lay outside economic system and inside human beings. The motives and values are critical factors to economic development. McClelland's (1985) argument is rested on the role of n Ach. That is, a high level of collective n Ach in a nation must precede the rapid economic development.

For a psychological explanation to work, a precondition is that individuals should have freedom to make choice in terms of their personal preferences. If everything is determined by environmental factors, obviously, personal factors have little explanatory power. Although McClelland strongly advocates psychological explanation, he is not a psychological determinist and fully aware that other factors, such as skill, resources, and social support (1961), also contribute to determine whether one with high n Ach can be a successful entrepreneur. The effect of n Ach on entrepreneurial performance and consequently on economic development can keep latent until other conditions being met.

For instance, in demonstrating the impact of societal influence on one's preference for occupation, McClelland wrote:

It is possible to have a society with a very high level of n Achievement in which, for reasons of prestige or other considerations of social structure, most of the boys with high n Ach are drawn into occupations that have little or nothing to do with economic productivity. Clearly such an eventuality is theoretically possible. Economic development must depend not only on the level of n Ach, on the number of vigorous entrepreneurs, but also on their distribution in various occupational statuses. For instance, a boy with high n Ach in a Buddhist society will become monks and not a business man (1961:239).

After the economic reform, Chinese people at grass-roots level were delegated the responsibility and power of solving various social and economic problems. They enjoyed substantial autonomy in pursuing their personal agenda, particularly in economic areas. Opportunities to do so were abundant as well. One's personal preference to a significant extent determined whether he could be an entrepreneur and how well he performed in an entrepreneurial position. Because of these changes, Chinese society after the economic reform provided a perfect stage to test McClelland's model of economic development.

4. Summary

Fig. 3.1 presents a graphic summary of the conceptual framework presented in this chapter. As mentioned at the beginning, the issues addressed by this framework fall into three categories. First, this study takes a stand that the action of people should be the focal point for understanding changes in a society. For investigating Chinese rural enterprises, the role of grassroots people will be emphasized because the conditions of Chinese society determined that they were the main forces behind the development.

Macro Environmental Conditions as the Background
Societal, Economical, Political, Cultural, Psychological Conditions Determine Opportunities for Entrepreneurial Activities in a Society. Once Opportunities are available, This Causal Process Characterizes Entrepreneurial Activities and Performance.

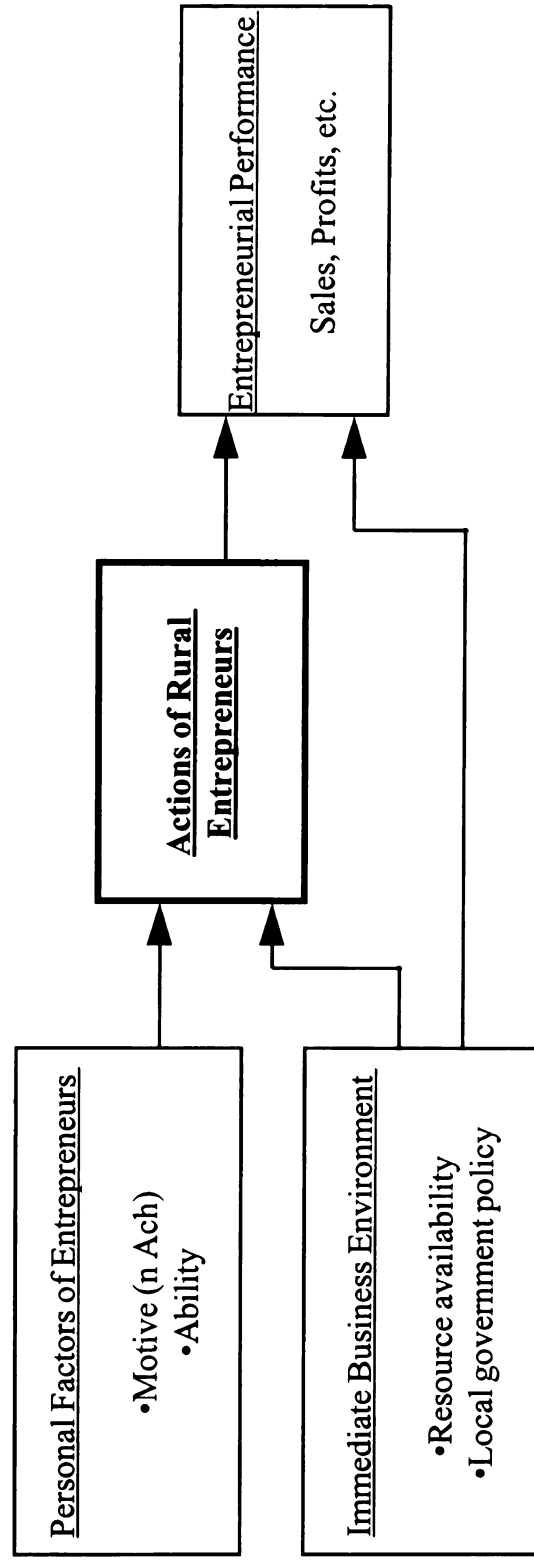
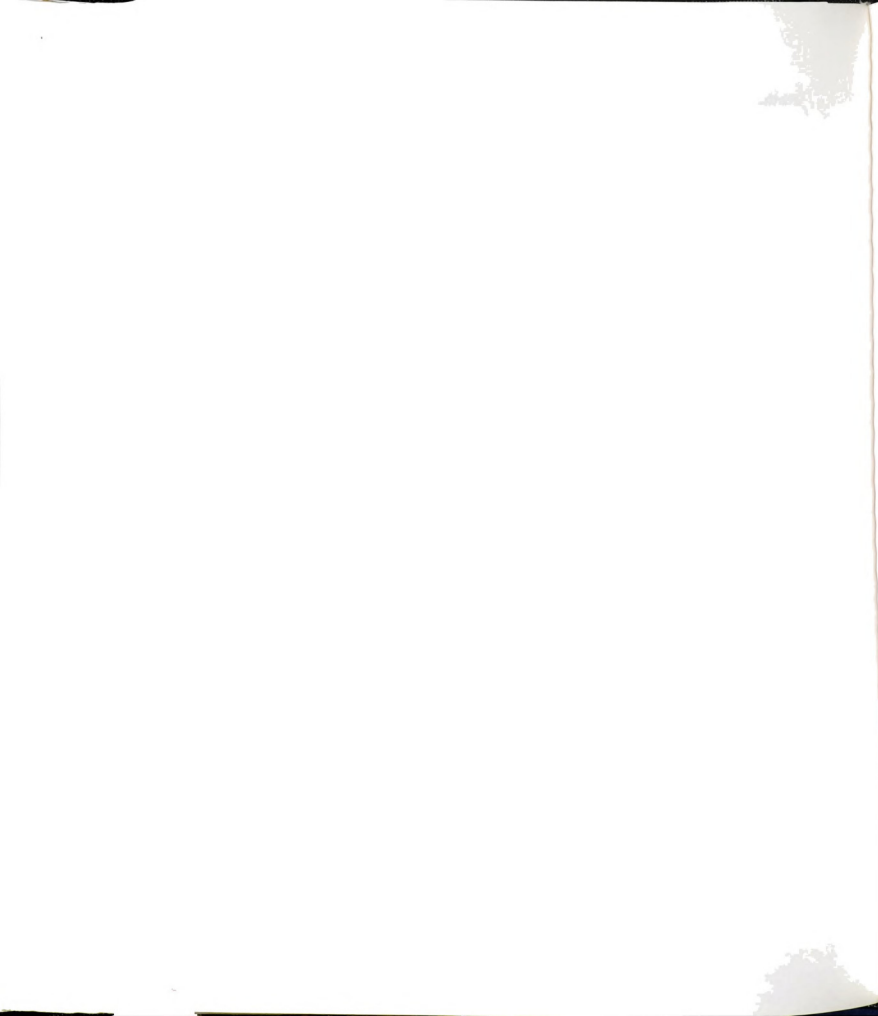


Fig. 3.1 A causal model of entrepreneurial performance in Chinese rural enterprises



Furthermore, given that Chinese rural enterprises are the objects of investigation, this study focuses on the actions of rural entrepreneurs because they are the links for all other relevant factors in business activities. Second, a general principle of human behavior will guide the analysis of the actions of rural entrepreneurs. This principle states that human behavior and its outcome are jointly determined by personal and environmental factors. Thus, the investigation will cover the impacts of relevant societal, political, economical, cultural, and psychological factors on the actions of rural entrepreneurs. Third, given the task requirements of entrepreneurial activities and the conditions of business operation for rural enterprises, the particular personal factors to be investigated include need for achievement and general intelligence. The environmental factors that determined opportunities for rural people to practice their entrepreneurial potential will be investigated in this study, which include China's political climate, the market demand and supply conditions, the resource base for development, and the impacts of local government policies.





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SOCIETY, INDIVIDUAL ABILITY, AND MOTIVE

A Socio-Psychological Study
on Entrepreneurial Activities in Chinese Rural Enterprises

Volume II

By

Wei Chen

A DISSERTATION

Submitted to
Michigan State University
In partial fulfillment of the requirements for the degree of

DOCTOR OF PHILOSOPHY

Department of Sociology and Urban Studies Programs

1999

Chapter Four

A changing society: Opportunities for rural entrepreneurs

Many questions can be raised about Chinese rural enterprises. For instance, why did the rapid development start in 1984? Why did it happen in the rural areas? And what were the critical conditions for this phenomenon to reach such a massive scale? To address these questions, the factors at both micro and macro levels need to be analyzed. Chapter Four and Five will focus on the macro level variables. Specifically, Chapter Four will address the impacts of political, cultural, and social conditions, whereas economical conditions will be the main topic of Chapter Five.

1. Economy first: The shift of CCP policy priority as the precondition for growth

Since 1978, particularly after 1984, many rural people have engaged in entrepreneurial activities and collectively they were very successful. This aftermath fact suggests that there be a huge pool of rural people with strong entrepreneurial potentials. Nevertheless, the basic ingredients of entrepreneurial potential are stable individual dispositions, such as *han* and general intelligence. They are formed in the developmental process as an individual grows up. Parental practicing, childhood experience, and cultural surrounding are all important factors that contribute to the formation of these ingredients. The genetic factor also plays an important role, particularly on general intelligence. It means that this pool of potential entrepreneur should exist in the rural areas long before 1984. As indicated in an early study

(McClelland, 1963), the collective motive profile of Chinese people showed an optimal level of entrepreneurial potential for a "modern" economic order. Then it is naturally to ask why it waited for more than 20 years for this collective potential to be materialized.

Furthermore, in explaining the development of rural enterprises, many studies cited the pressure for transferring surplus rural labor as a critical factor (e.g., Yu & Huang, 1991; Du, 1990; Liao, 1993). However, the supply of rural labor in China had surpassed the requirement for efficient agricultural production long before 1984. For instance, the per capita farm land in Jinjiang City was 0.1 acres at 1970 (Jinjiang Volume, 1992). In another famous place in terms the development of rural enterprises, Wenzhou City, the number was even smaller, 0.06 acres per capita (Yu & Huang, 1991). Obviously, there was not enough agricultural work to absorb all rural labor force in these areas. When I attended a conference on rural development in Jinjiang City in December 1994, people told me a story that vividly illustrated the situation of surplus rural labor. In some villages of Jinjiang areas, the opportunity to work had to be rationed before the economic reform. People took turns to work. Every day, the cadres listed the name of those who could work on a blackboard. If one's name was not on the board, then he/she could not work that day. Then a question can be asked why the surplus rural labor had to wait until 1984 to start significant movement to nonagricultural sector?

The change in CCP policy priority

There is a consensus that the economic reform started in 1978, particularly the reform in rural areas, is the triggering event of rapid development. I agrees to this

conclusion. Nonetheless, in this section, the emphasis is on a more influential but less dramatic change: the shift of CCP policy priority from class struggle to economic development in 1978 (Deng, 1978). This is indeed a milestone event because class struggle had dominated the Party's policy making for more than twenty years before then. This change is crucial to the development of rural enterprises because it assured the legitimacy of policy adjustments to allow rural people opportunities to practice their entrepreneurial potentials.

Looking back to the history of the CCP, its policy priority determined the direction of its action. No matter who is in the leadership position, the actions of the CCP are guided by its policy priority. Changing the Party leader usually implies the change of policy priority. After Deng Xiaoping became de facto absolute leader of the Party, he put economic development as the first priority.

When the class struggle was the policy priority, the Party's actions were guided to protect and strengthen proletarian power, and to suppress any potential and overt surge of bourgeoisie ideas. Economic development was sought but as a secondary priority. When there was a conflict between class struggle and economic development, the former often won the battle. For instance, in mid-70s, the extreme leftists were very powerful in the power center. They declared that they would prefer socialist weeds to capitalist flowers ("Ninyao shehuizhuyi de cao, buyao zibenzhuyi de hua."). It was to maintain ideological correctness even at the expense of people's living and economic development. This attitude reflected the policy emphases at that time. Only when the deterioration of economy threatened the power base of the Party, there could be a temporary withdrawal

from class struggle and yield the priority to economic issues. Once there were signs of improvement in economy, the Party would return to class struggle quickly. The Party's actions after it won the revolution in 1949 typified in this pattern. All major political movements were preceded by an economically doing-well period. For instance, in 1957, the year before the commune movement and great leap forward, Chinese economy was at the best condition since 1949. There was a similar situation before the cultural revolution in 1966. Deng's reentry to the power center in the late period of Cultural Revolution was a good example as well. The economy at that time was in a near collapse situation and needed a leader who would focus on economic issues.

This policy priority even affected the government behavior at micro levels. For instance, rural people were prohibited from engaging in any sideline productions other than agricultural work (so called "cutting the capitalist tails"). In Shanghai City, the income for newly hired workers was equalized in mid 70s. Every new worker earned 36 yuans per month, regardless skill, experience, and the kind of work. Dresses that displayed individual characteristics were discouraged. For sideline production, income gap, and individualism were all considered as the breeding beds for capitalist ideas hence should be eliminated.

Under the circumstance that class struggle was the policy priority, there was no space for individuals to practice entrepreneurship. For acting entrepreneurially, people have to put profit before political correctness, to follow the rule of market rather than the ideological guidelines of the Party, and to be rewarded by the performance that produces inequality. All these consequences are completely incompatible with the policy priority of

strengthen proletarian power. Thus, any signs of these activities could induce strong counteractions from the government to suppress them. During that time, many rural people were severely punished for engaging in activities such as transporting goods from one place to another for trade, selling sideline products at market prices that were usually higher than the prices of state-owned stores, and even raising domestic animals (chickens, ducks, geese, etc.) (Leeming, 1985). To operate a factory of one's own was out of the question. Many rural entrepreneurs had experiences of being punished for their activities in non-agricultural production. In Dazu County, a manager told me that in 1982, when the local government asked him to manage a metal company, his mother strongly objected. She saw his father suffered greatly for managing factories and would not want her son to suffer again. A local official, who used to be an entrepreneur at Taoyuan Township, Wujiang City, told me that he had to frequently cite Mao's May Seventh directive of 1958 to defend himself against criticism to his activities in non-agricultural production. In the same directive, Mao encouraged rural people to participate in industrial work.

The nationwide debate in 1978 on "Outcome is the only criterion to justify truth" (Shijian Shi Jianyan Zhengli De Weiyi Biaozhun)" helped to strengthen the ideological foundation for economic development as the new policy priority. The debate aimed at reversing the mentality of sacrificing material well-being for ideological correctness. The goal was termed as "liberating thoughts (Jiefang Sixiang)" (Deng, 1978). The key issue addressed in the debate is that the fundamental goal of socialism is to improve people's living standard and develop the nation's economy. Therefore, no matter how ideologically sound, any practice that did not improve people's lives could not be considered as right.

Under this new policy priority, as long as the power base of the CCP is not challenged, actions that promote economy will be encouraged by the government. In doing so, the CCP returned to its pragmatic side as what it did during the war period in developing the base economy.

Ideological correctness was still emphasized under the new policy priority. The famous "Four fundamental principles" proposed by Deng was the most obvious evidence in this regard. They are "Following Marxism-Leninism and Mao Zedong thoughts, taking the socialist path of development, strengthening the leadership position of the CCP, and maintaining proletariat dictatorship" (Deng, 1987). Nonetheless, those objects were put in a secondary position, except strengthening the leadership of the CCP. Guided by the new priority, in the case of policy conflict, the concern for economic development usually overwhelmed concern for ideological correctness. The policy adjustments on rural enterprises are good examples in this regard. For rural non-agricultural production, rewarding by performance, and individual initiative used to be considered as ideologically incorrect. They were all encouraged after the economic reform for their contributions to economic development. CCP's tolerant attitude toward private enterprises was the strongest evidence. For they were completely unacceptable when political correctness was the priority.

Besides setting the direction, the Party's policy priority also determines how it would respond to people's demands. This function sometimes is even more important than its directive one. The Westerners would like to describe Chinese government as an authoritarian regime that pays no attention to the demand of people. That is not true. In

contrary, being highly responsive to the environmental conditions is the key that the CCP maintains its leadership position. A favorite topic of CCP leaders is that the Party was always able to correct its own mistakes. In most cases, it is the truth. In order to do so, responding to the voice of people and taking actions to adjust the course of action are the preconditions.

When CCP's leadership position is not seriously challenged, its policy priority determines the type of people's demand that it would respond to and the ways of responding. The new policy priority of economic development directed the Party to show a favorite attitude toward people's demands and actions that help the economy. The numerous policy adjustments since 1978 demonstrated how the government responded to people's demands and actions. Usually, it is a progressive process that has several stages. First, the power center tolerated the spontaneous actions of grassroots people that showed positive impact on people's material well-being and the economy. Those actions were usually considered as ideologically incorrect when class struggle was the priority. A typical case is the practice of household responsibility system at Xiaogang Village of Fengyan County, Anhui Province in 1979. It was initiated by a group of peasants. In response to peasants' actions, the governments up to the provincial level took an attitude of "don't encourage and don't suppress and see what happens." (Xu,1992; Wu,1993).

Second, once the effort of grassroots people produced tangible outcomes that had positive impacts on the economy, the government would gradually incorporate these practices as the formalized policy. After several preparatory documents had been issued between 1979 and 1981, the Circular No. 1 of 1982 officially endorsed HRS. The

peasants at Xiaogang Village were not the pioneers of HRS. There were many previous attempts but all failed. Many people were seriously punished for trying to do so (Wu, 1993). Besides their courage and initiative, Xiaogang peasants' successes were directly associated with the favorite political environment created by the new policy priority. Such a "wait and see then encourage" approach in responding to people demands and actions characterized the formation of several key reform policies, for instance, policies on HRS and private enterprises.

To formally accept private enterprises took much longer time for the incompatibility with the Party's ideological tradition was too great to compromise. This phenomenon appeared before the economic reform (Wei, 1994; Cao, 1994; Yu & Huang, 1991). In 1984, the Party sent signals about its tolerant attitude toward private enterprises. Until 1994, however, to defend public ownership was still a recurrent topic of government controlled media. Nonetheless, as long as the economy is the priority, the policy adjustments should be in a direction that favor the development in this sector.

The new policy priority significantly altered the political climate toward private enterprises that in turn affected performance of rural entrepreneurs. During my field research in Cizao Township of Jinjiang City, I delivered a seminar on management to rural entrepreneurs. Among the attendants, I learned that some of them were the pioneers in setting up businesses in that township. They were apparently older than other people. Unfortunately, when they started their businesses, the political climate was not favorable enough to tolerate private businesses. Thus, they were arrested and put in jail. During their jail terms, the political climate became friendly enough for the operation of private

business. Many people started their businesses and became successful entrepreneurs. Once those pioneers finished their jail terms and were released, they started businesses again. But they had to compete with those companies that started later, did not suffer the interruption, and had well established. They told me that their current businesses were really nothing compared with those later comers. If there was no political interruption, they should be much better off than their current situations.

Deng's pragmatic style also affected the way that government responded to people's demands and actions. He admitted that there would be many unfamiliar problems during the reform. He believed that the wisdom and initiative of grassroots people were the most importance sources of solutions (Deng, 1978). The Party should encourage people to take initiative in solving practical problems. Affected by such a style, the signals sent by the center were often more important than the actual policies. This style was also responsible for a behavioral pattern in the Chinese society during that period. That is, people at the grassroots level were either by sensing the signals from the center or driven by practical needs to take various actions. If no strong negative responses from the government were triggered, they would keep moving forward.

The change of policy priority also allowed the adjustment of traditional socialist industrialization strategy that guided the development of Chinese economy up to 1979 (Dong, 1992). This strategy was initially adopted by the Soviet Union in 1930s. Its core features were to concentrate resources on developing heavy industry in urban centers. In China's case, the steelmaking sector of heavy industry was particularly emphasized. Light

and service industries were generally neglected. Besides economical issues, there were strong ideological implications attached to this strategy. As Dong pointed out:

People...tended to see socialist industrialization and capitalist industrialization as being quite distinct from each other, having been determined by opposing socio-economic systems. Therefore a process starting with the development of light industry was called 'capitalist industrialization', and a process starting with the establishment of heavy industry was called 'socialist industrialization.' The former was viewed as spurred on by a greed for profit, because of light industry's fast capital turnover, the latter were viewed as governed by the interests of society as a whole, because heavy industry helps to lay down the foundation of a country's industrialization, though it may produce little or no profit at the time (25).

Obviously, people's material well-being was not the first priority in this strategy. It focuses on the struggle between socialist and capitalist societies. Whether to follow this strategy then was an issue of political correctness. Some even claimed that it was the unshakable principle of Marxist economic theory (Dong, 1992). If this strategy is still effectively in force, it would be very difficult, if not impossible, to develop rural enterprises. For this strategy excludes rural areas from industrialization and hinders light and service industry. As we now know, over half of rural enterprises were in light and service industries. For instance, the rural enterprises in Jinjiang City were famous for shoe and garment production.

The socialist industrialization strategy was gradually giving away after the policy priority changed. In December 1981, at the Fourth Session of the Fifth People's Congress, Premier Zhao Zhiyang declared a marked change in development strategy in which satisfying people's needs now became the priority. "In handling the relationship between production and people's livelihood, the basic necessities for people's lives should be

guaranteed first." This policy adjustment paved the way to promote light and service industries since they were directly related to people's lives. It also justifies any production efforts that improve people's lives. Obviously, rural enterprises were in line with this development strategy. Guided by this policy adjustment, the government even helped rural enterprises to switch their production to consumer goods (Yu & Huang, 1991).

In brief, the change of policy priority in 1978 laid the foundation of political assurance for the practices that were prohibited when class struggle was the priority. It removed the most serious obstacle for rural people to practice their entrepreneurial potentials. Because after change, entrepreneurial activities would be compatible with rather than against the Party's priority.

The rural reform and rural enterprises.

Three sets of rural reform policies were particularly important in promoting entrepreneurship in rural areas. Those policies gradually opened the door for and prepared rural people to practice their entrepreneurial potentials in non-agricultural sectors. The first set is the policy on Household Responsibility System (HRS). HRS were heralded for smashing the practice of "eating from a big pot" in which reward is irrelevant to performance. It released the enthusiasm of rural people and consequently agricultural output in China increased significantly.

For its impact on promoting entrepreneurship in rural areas, HRS allows individuals great freedom in making production decision according to market conditions (Li & Liu, 1989). Before HRS and after the People's Commune Movement in 1958,

individuals could only decide what they would plant on their private slots that usually took 5-7% of total arable land (Leeming, 1985). The primary purpose of the private slot is to plant vegetable for self-consumption. Even the freedom on the private slot was frequently disturbed by the concern of suppressing any potential capitalist surges. The production decision for the remaining 95% land was controlled by the heads of production teams. Their decisions were further controlled by the heads at brigade, commune, and even county level (Leeming, 1985). After the introduction of HRS, theoretically, the government only controlled the part of production for fulfilling the state grain and other purchase quota that usually takes a small portion of the gross outcome (Li & Liu, 1989). The state purchase quota requires a household to plant a designated amount of specific crops or it can be punished in some way. Each household under HRS also needs to contribute part of its income to the collective interests of their village (Li & Liu, 1989). Unlike the state quota, this contribution emphasizes the value rather than the content. After these two deductions, the remaining belongs to the household.

Theoretically, under HRS, a household has the full control over the production except for the part of fulfilling the state quota. It can decide what to plant, how much, when, and where to sell the surplus, and the price of sale. While enjoying these freedoms, it also needs to take responsibility for a timely plantation, obtaining supply, making production plan, organizing production activities, and forming marketing strategy, etc. Obviously, these activities are similar to the basic elements of entrepreneurial tasks. Thus, HRS provided rural people with opportunities to practice their entrepreneurial potentials, though it was in agriculture production. After being deprived freedom and responsibility

for a long time, HRS allowed everyone to get familiar with the basic ideas and skills that were critical to entrepreneurial activities.

The second adjustment is the development of specialized household. A specialized household engages in a specialized production as the major source of its income or it sells most of its products, say, more than 60 percent (Odgaard, 1992). The specialized production activities are mainly related to agriculture and other rural traditions, such as, vegetable, domestic animal husbandry, domestic fish, grain crops, small tools, and handicrafts. Industrial production in a modern sense was not a major part yet. A specialized household differs from a traditional peasant family because it emphasizes commodity production (Li & Liu, 1989). The primary object is to sell rather than consume the products.

This phenomenon is in fact a natural extension of HRS. Under HRS, rural people enjoyed great freedom and showed enthusiasm in agricultural production. More important, HRS sent a message that individual interests were important factors in deciding production plans. Although state and collective interests were emphasized as well, they should not harm individual interests. For people with strong entrepreneurial potentials, it is natural that they would fully use this opportunity to maximize the economic benefit of their work. Thus, shortly after HRS became a widespread practice, rural people started to diversify and specialize agricultural productions. Diversifying means that besides grain crops, people would engage in other production, such as vegetable, poultry, forestry, and other so-called sideline activities. Specializing means that individual households would choose a particular production as its major activity

according to its expertise and market conditions. By doing so, it optimized resource utilization and increased the earning of rural people. This trend was encouraged by the government.

Recognizing the weaknesses of self-sufficient rural economy, the government promoted commodity production that was consistent with the spontaneous trend in rural areas. Commodity production helps capital accumulation and increases the purchasing power of rural people (Du, 1981, in 1995), that in turn helps rural and national economy. In January 1982, the CCP issued a document in which the development of specialized household was listed as a priority ("The summary of national rural work meeting"). It stated: "the experiences in recent years had proved that promoting family sideline production and developing specialized household could effectively utilize scattered material and financial resources, and people with special skills. This is a great economic resource. To family sideline production and the specialized household, governments should set forth nurturing and supportive policies, and help them in capital, technical support, and marketing." (Chen, 1993:99).

Those adjustments deviated significantly from the previous policies. To ensure food supply, the Chinese government had used administrative power to direct the rural economy on grain production only (rice, wheat, and corn) and suppress non-grain productions because the later were considered as diverting resources from the former (Min & Li, 1988; Du, 1981). This emphasis is understandable because China is a nation with a huge population. The shortage of grain supply could have severe social, economical, and political consequences. But this policy neglected the organic links

among major production factors, such as the quality of land, climate, market conditions, and people's expertise. Combined with non-performance-based reward system, the administrative intervention did not produce a satisfactory outcome. For instance, in 1978, China had to import 6.95 million metric tons of grain products to cover the shortage (Min & Li, 1988).

Since the narrowly focused agricultural policy failed, under the new policy priority of economic development, it was a natural choice that the government would respond positively to rural people's initiative in commodity production. As what happened in HRS, the encouragement from the government triggered rapid growth of specialized household. By 1983, there were twenty-five million specialized households in rural areas (Cited in Odgaard, 1992). The average income of specialized households was 82.2% higher than non-specialized household. At one moment, the term specialized household was equivalent to rich family.

There are several implications of these adjustments to Chinese rural enterprises. One would be that they further expanded rural people's freedom in their production activities. The conditions of expertise, market demands, and resource availability became the key determinants of a production plan. Under HRS, the freedom was primarily on how to arrange grain production. It was still in consistent with the previous government strategy. In specialized households, people made their production decisions on a wider range of agricultural activities, such as aquatic farming, forestry, animal husbandry, fishery, and sideline production. Simply speaking, rural people wanted to have more choices and the government encouraged this trend. It became the legitimate rights of rural

people that they could choose a particular production based on the judgment of economic benefit. Once people have this right, logically it could be extended to non-agricultural activities, as long as rural people perceived better economic benefits to do so. For those with strong entrepreneurial potentials, that would be a natural choice since they always strive to maximize returns to their efforts. Thus, one outcome of specialized household was to pave the way for rural people to move out of agriculture altogether and to nonagricultural sectors, based on their own personal interests.

Furthermore, the practice of specialized household is a preparatory stage for the large-scale-commercialized-industrial production in rural areas. It provided an important step stone that allowed a progressive transformation of Chinese rural economy, from the sole focus on grain output to a situation in which non-agricultural production became the dominant sector. As Du Rengsheng indicated in one of his policy speech: "In a country as big as China, an attempt to universally commercialize production all at once is likely to produce many failures and few successes" (1984:88 in 1995). The transformation has to go through a developmental process in which all necessary conditions are gradually built up.

This preparatory function was manifested in several aspects. First, they created a commodity economy in rural areas. It is a precondition for the development of rural enterprises because a market oriented industrial production cannot be self-sufficient and has to be commodity-based. There were two emphases of the previous policies, grain production and non-commodity economy. The practice of specialized household mainly changed the second emphasis.

Second, they helped to instill a sense of commodity production among government officials. The economic success of specialized household is the convincing evidence that Chinese rural economy needs to be transformed into a commodity one. The previous rural policy had strong ideological implications that were deeply imbedded in people's minds. Therefore, transforming rural economy is not just an economic issue. More important, it involves changing people's mind sets, particular those of government officials. As Du Rengsheng indicated: "We must ensure that all cadres recognize the necessity of developing a socialist commodity economy" (Du, 1981:37, in 1995). As the previous analysis suggested, the tolerant or encouraging attitudes of government officials was an important condition of development. If there was strong resistance from government officials against a commodity economy in rural areas, then it would be difficult for ordinary rural people to practice their entrepreneurial potentials. At the early 1980s, "This problem of recognition has definitely not been resolved" (Du, 1981:37. in 1995).

Third, it provides opportunities for rural people to build up the basic skills required by a commodity economy, such as the skills of marketing, accounting, and organizing production in terms of demand. After all, a non-commodity economy had dominated Chinese rural people's lives for a long time. The basic concepts of a commodity economy became fairly strange, if not alien, to them. The practice of specialized household let people to acquaint themselves with the operation of commodity economy in the fields where they had expertise. Then they can apply their knowledge of commercial production to other activities in which they may not have expertise but the

return potential was greater, such as industrial production. This type of learning process was fairly common. For instance, a farmer with fish raising expertise became a fish specialized household. Then he was responsible for buying feed, selling fish, and other activities. Once he became familiar with the whole process of commercialized operation, he switched his production to fry breeding, in which he did not have expertise but saw a greater profit potential. To compensate his lack of experience in his new adventure, he was able to get help from various sources and became successful in his new adventure (Cited in Li & Liu, 1988). Fourth and finally, the commercialized production helped capital accumulation by individual household. Rural people's personal savings were important sources of seed capital for rural enterprises (Lin, 1990). A survey showed that founders' own savings account for at least one-third and often all of total startup investment for private enterprises.

In order to develop a commodity economy, it was inevitable to call for the third set of policy adjustments to allow rural people to participate in transportation and long distance trading. In 1984, a series of policy documents was issued by the State Department (Yu & Huang, 1991). Those documents specified that after fulfilling their obligations to the government, rural people could sell their products in any markets, despite jurisdiction boundary and distance. The price of sale would be decided by market conditions. Also rural people could buy transportation equipment, such as a truck, a tractor, or a ship. They could conduct both passenger and freight transportation. The government would supply them with fuel and other materials that were controlled by the state planning. After those adjustments, the two critical links of a commodity economy,

circulation and exchange in addition to production, were officially established. Before the economic reform, rural people were prohibited from those activities because they all considered as promoting capitalism. People who took risk to do long distance trading were punished severely. When I was a child, I had to pass a train station on my way to school everyday. I often saw that polices rounded up several peasant-looking people with big bags and took them to somewhere. What those rural people wanted to do was to sell their products to urban folks. Urban people often took advantages of the negative attitude of government when rural people try to sell their products. For instance, the customers would use the price in state owned stores as a benchmark to force rural people to lower the price. If rural people wouldn't do, they could be accused as undermining socialism. Such an accusation was a real threat then. Urban people could also threaten them to have government officials confiscate their goods. In many cases, urban people did enjoy an up-hand in the bargain game.

In consistent with those policy adjustments, the government encouraged the development of "Free market" across the country that provide rural people with trading sites for their products. The term "free" is in a political sense rather than a monetary one. It means that the activities in such a market are less regulated. Prices are mainly determined by supply and demand rather than fixed by the government. Before the economic reform, "Free market" had limited presence in rural areas but not in major cities. When the government started to encourage "Free market," the trading activities mainly involved agricultural products, such as vegetable, egg, chicken, fish, grain

products, fruit, and so forth. After the rural economy became more and more diversified, many non-agricultural products started to appear as well.

"Free market" has important implication to rural enterprises because it serves as a critical marketing channel, particularly at the early stage of development. An entrepreneur in Yinling Township, Jinjiang City told me that when people started their garment businesses, they first sold their products through "Free market." They mixed their clothes with vegetable and egg. Another person told me that his marketing strategy at the initial stage was to make some samples and have them displayed in a "Free market." People in retail and wholesale businesses would come to the market to search for clothes. If someone thought that his samples were good, then they would sign a deal and he would produce in a requested quantity. When I interviewed this person in 1994, his business was well-established. He himself was a star entrepreneur in Jinjiang City. In some cases, because of heavy trading in non-agricultural products, a "Free market" was transformed into a specialized market, such as garment, clothes material, and shoe materials. This phenomenon happened in Jinjiang City.

More important, the third set of policy adjustments helped to form a group of people who specialized in trading and transportation. A critical factor to the success of rural enterprises was the strong sale capability of rural people. This group of people is the link between production and market. Without them, the whole production circle could not be completed.

Initiative of Chinese rural people and government policy adjustment

As emphasized several times in the previous chapters, being highly responsive to the initiative of grass-roots people was a distinctive feature of government policy adjustment in the economic reform. This point need to be re-emphasized to avoid false impressions that the three sets of policy adjustment introduced or created the practices of HRS, specialized-household, and privately transporting and trading agricultural products in Chinese rural economy. As a matter of fact, what these policy adjustments accomplished were to legitimize the existing practice initiated by rural people and give political assurance for broad participation by rural people. Or in other word, rural people's actions preceded the Party's policy adjustments. These policy adjustments in turn promoted the spread of these practices by removing various administrative barriers. It is fair to say that many specific policy adjustments in rural reform were made in respond to rural people's demands rather than close-door designs by a few elite members. The demands of rural people were normally expressed in either their out-of-boundary actions or passive resistance to government policies.

An obvious evidence that rural people demanded changes was that they reacted with great enthusiasm to the opportunities created by these policy adjustments. Consequently, every policy adjustment resulted in explosive development in the targeted area. For instance, HRS was initially practiced under great political risks by the peasants of Xiaogang Village of Fengyang County, Anhui Province in 1979 (Xu, 1992). Once the government gave tacit permit for this practice, it spread across Anhui Province as if a flood broke a levee. The then Party secretary of Fengyang County, Chen Tiyan,

described peasants enthusiasm for HRS as “cannot be stopped even if putting knife on their necks” (cited in Wu, 1993:253). The situations were similar with the policy adjustments on specialized household, and transporting and trading of agricultural products.

One benefit of making policy adjustments according to people’s initiative is that the progress of change tends to match the natural learning and developmental sequence. The pace and pattern of development is more likely determined by the natural law rather than forced by human will. Opportunities are provided when they are needed. It also allows people time and space to learn and make adjustment to changes. Therefore, development tends to be at an optimal speed and in a progressive manner. The three sets of policy adjustments just discussed are good examples in this regard. First, when the economic reform started, lack of freedom in making production decision was the foremost factor that suppressed peasants enthusiasm. Peasants expressed their strong demands for such freedom through either passive resistance or some politically risky actions. Responding to peasant demands, the government policies were adjusted accordingly.

Then once people were able to skillfully apply their freedom in making production decision and because they had strong desires to improve the return to their effort, they would search for new options. Then commercial production became a major direction of their effort. Nonetheless, governed by the progressive learning sequence, their attempts were still within the boundary of agriculture rather than ventured into completely unfamiliar fields, such as industrial production. In this way, rural people could learn and

practice the basic principle of commercial production in a familiar field. Or they could be overwhelmed by huge amount of new information. The policy adjustment on specialized household responded to and promoted this developmental trend.

Finally, for commercial production, goods have to be transported to markets to reach the consumers. Or it will be impossible to sustain a commercialized operation. Thus, the policy adjustment on transporting and trading agricultural products were inevitable because they were the critical links to complete the production circle. Following such a logic of reasoning, if all other conditions were favorable, once rural people had the freedom in making production decision, mastered the basic skills of commercial production, and built up channels to reach the market, an next target of peasants' effort to improve their lives would naturally be non-agricultural production if they could achieve better economic reward in that field. Consequently, the government should make further policy adjustments in responding to such a demand. This was exactly what happened following these three sets of policy adjustment, as discussed in Chapter Two.

In brief, the contributions of these three sets of policy adjustments were to prepare several critical conditions, both physical and psychological, for rural people to fully practice their entrepreneurial potentials. On one hand, these policy adjustments removed many political and administrative barriers for entrepreneurial activities. On the other hand, they helped rural people to build up basic skills for industrial production. As discussed in Chapter Two, the development of rural enterprises between 1978-1983 was significant but far from extraordinary. The above discussion suggested that some critical

conditions had not been formed yet during that period. It also explains to some degree why the explosive development started in 1984 because those critical conditions were ready at that time due to a series of policy adjustment.

2. The social psychological conditions of entrepreneurial development.

As discussed in Chapter Three, favorable external conditions alone are not enough to produce real actions. If collectively, the entrepreneurial potential, particularly need for achievement (n Ach), is weak among Chinese rural people, the economic opportunities unveiled by a favorable political environment would not be fully utilized and the development of rural enterprises would not be extraordinary. Fortunately, Chinese rural people demonstrated through their actions that they were very entrepreneurial in responding to economic opportunities, as what they did in the practice of HRS and the specialized household. This section is to briefly discuss the sources of such potentials and the process of its formation. There will be two parts of analysis, the impacts of Chinese culture and CCP's education effort.

The nurture of entrepreneurial spirit in Chinese culture.

From a historical perspective, the key elements of entrepreneurial spirit have always been nurtured by both official doctrine and popular culture in China, such as performing against a standard of excellence, deferred reward for performance, seeking performance feedback, continuous improvement, and being moderate rather than radical in actions. As suggested by McClelland (1961), the core of entrepreneurial spirit, need for

achievement, is significantly influenced by the cultural environment and childhood experience. It is reasonable to infer that as the result of cultural influence, collectively, Chinese people should have strong entrepreneurial potential.

There are two sources of cultural impacts on the formation of entrepreneurial spirit. One is the official doctrine promoted by the state through formal channels, such as the state exams for selecting officials that required people to study a set of designated book. Those books reflected the official doctrines. The other is the popular culture that popularizes the basic ideas of the official doctrine and passed to ordinary people through informal channels, such as folklore, daily communication, parental practice, and family rules. Confucianism is the core of official doctrine during the feudal time. While promoting the values of static, order, conservative, traditional, and maintaining the statue of quo, it also emphasizes that people need to make personal effort for upward mobility, improvement, seeking performance feedback, surpassing the standard of excellence, practicing self-restrain, and achieving long term goals. These are all the key elements of entrepreneurial spirit. Even Confucius himself demonstrated some signs of entrepreneurship. He once said: "If it can make me rich, I would not hesitate to accept a position as inferior as a market doorman" (Confucius, In Yang, 1980:69). Because the state exam for official selection was primarily based on the content of Confucianism doctrine, therefore, it dominated the Chinese education system at that time. Students were constantly exposed to these values.

The popular culture expresses these values in a simple and straightforward way. Ordinary people with little education could easily understand. Similar as official doctrine,

while emphasizing the value to obey the social norm and to behave within the boundary determined by one's position in the society, it also promotes industrious, prudent, accumulation of wealth through working and saving, focusing on long term goal, and reward according to performance. Those teachings were reiterated in various popular readings, folklore, and popular sayings. Thus, people were constantly exposed to those values.

Some people may raise a question: If Chinese culture nurtured strong entrepreneurial potentials, why Chinese people did not become business people in a large number inside China? It is true that business community was never fully developed in China during the feudal time and business people had never been important forces in the society. To explain this phenomenon, the general principle of behavior should be applied, which has been reviewed in Chapter Three. That is, people's behavior is determined by both personal and environmental factors. This phenomenon can be partly explained by a dilemma in the official doctrine and popular culture, and the strategy that the state adopted to deal with the dilemma.

It is not difficult to tell that there are conflicts between the values advocated by both official doctrine and popular culture. On one hand, to maintain the statue of quo and an orderly society are the priorities. On the other hand, improvement and upward mobility through personal efforts are also encouraged. These two emphases are in essence incompatible with each other. If the priority is to maintain what has existed, people should be trained to keep everything as it is and make no change. If the improvement and upward mobility are the priorities, people has to change the existing establishment. The

original purpose of such a value system is to confine personal improvement within the boundary of existing establishment. Nonetheless, once a person with high n Ach is aroused and has the freedom to choose among options, one would seek the opportunities that maximize reward to his/her effort and minimize cost. Those choices often conflict with the goal of maintaining the statue of quo.

In dealing with the dilemma, the strategy by the state was to channel the expression of n Ach energy in a direction of being a government official and suppress the natural channel of releasing n Ach energy, such as being a business person. For instance, the state promoted an official system of occupational hierarchy. That system consisted of five categories with differentiated prestigious. They are Shi (state officials and intellectuals who serve the state), Nong (peasants), Gong (skilled craftsmen), Xue (students), and Shang (business people). Shi is the most prestigious occupation and Shang is the least one. According to this system, the occupations that emphasize regularity and traditions were assigned higher social status, such as state officials and peasants. Those emphasize innovation, change, competition, and opportunistic were assigned lower social status, such as business people. The state encouraged people to enter those higher rank occupations and set the barriers for the lower ones. In addition, the state also adopted a policy of "Protect agricultural production and suppress commercial activities" (Zhongnong Yishang). An extreme example that the state suppressed business activities was the ban on trade through the sea during the early period of Min Dynasty. Jinjiang City used to be the No. 1 trading port during Song and Ming dynasties (1200-1600 A.D.). After the emperor issued the ban, its economy was destroyed (Liu & Wei, 1992).

This hierarchical system also enjoys strong popular support in China. That is an even more powerful factor for its effectiveness. Business people were not respected or even hated in the society. "Wu Shang Bu Jian (no business person is not evil and dishonest)" is a popular saying in Chinese society. Wealth alone can never gain respect in the society. Those who made their fortune through business activities were anxious to have their children educated and become government officials. On the other hand, if a poor person manages to pass the state exam, even the most powerful and wealthy in the local community would respect him. The story of "Fanjing Zhongju (Fanjing passed the state exam)" was well known in China. It vividly described that after passed the state exam, a poor person instantly became superior to his wealthy relative who used to bully him greatly. To be an official is always a respected career path in the society. As advocated by Confucianism: "Good students should be government officials (Xue Er You Ze Shi)" (Zi Xia, in Yang, 1980:202). Confucius also said: "Study can feed people" (Confucius, in Yang, 1980:168). The popular version of this idea would be "study to be an official (Dushu Zuoguan)."

Therefore, in the traditional Chinese society, the state intervention and social pressure created enormous difficulties for people with high n Ach to enter entrepreneurial occupations and successfully suppressed the development of business community. McClelland pointed out that in a society that values being a monk, its youth with high n Ach would choose to be monks (1961). What happened in the traditional Chinese society is the similar story.

The effort by the state to suppress the development of business community actually provides the evidence that Chinese people had strong entrepreneurial potentials and many of them were attracted by business occupations. If only few in a society want to be businesspersons, then there is no need to prevent people from doing so. It can be expected that collectively, Chinese people should be successful in business operation if environments allow them freedom to do so. McClelland (1961) indicated that the early Chinese immigrants to the US did not achieve significant business success because the discrimination against them was too great. They were denied the access to various resources that were critical for entrepreneurial activities. On the other hand, Chinese who emigrated to Southeast Asia encountered much less discrimination and many were very successful in business. In Southeast Asia, Chinese are generally regarded as very entrepreneurial and good business people (Rahama, 1988). For instance, the emigrants from Jinjiang City, where I conducted my field work, were very successful in Philippine. Among the five richest business people in Philippine, three were Chinese and they were all originally from Jinjiang (Xu & Wang, 1992). In the development of rural enterprises, Chinese business people in Southeast Asia were important sources of capital, information, and marketing channel. There are about one million overseas Chinese were originated from Jinjiang City (Xu & Wang, 1992). This factor was considered an important condition for the success of Jinjiang's rural enterprises.

The achievement orientation of CCP's education effort.

The achievement tradition of Chinese culture is further enhanced by CCP's education efforts. Those efforts took place both in guerrilla base era and after it won the revolution. The term education has a broad implication here. It covers all sorts of activities to have people accept a particular set of ideas and act upon them. Educating people about the Party's mission then organizing them to act collectively are the classical approaches of the CCP. These approaches are consistent with the Party's strategy of relying on the mass. As Mao indicated: "People and soldiers are the keys of success" (1938a, 476). CCP's education efforts expressed in various forms, such as propaganda through mass media, organized group discussion on the designated topics, mass movement driven by some particular ideas, selected people or organizations as role models for other to follow, and school education. Through the government controlled media and its effective grassroots organizations, CCP's education effort reached almost everyone in China.

As a communist party, the historical root of this practice can be traced back to Marx's notion regarding the importance of class consciousness in workers' struggle against capitalists. It is assumed that the class consciousness has to be aroused for workers to take actions and overthrow the suppression by the capitalists (Turner et al., 1987). Hypothetically, there can be two ways to arouse the class consciousness. One is that the oppression by the capitalists incurs severe conflict with the workers who in turn recognize the uncompromising conflict between the interests of their own and the capitalists. The other way is to educate those being oppressed to recognize the conflict

interests and waken their class consciousness. Then organizing awakened workers to act collectively to overthrow capitalism. This approach was initiated by the Soviet Communist Party. The CCP generalized its application far beyond the initial purpose of wakening class consciousness and applied it to every major action.

Many regarded CCP's education effort as pure ideological instilling and a critical strategy to maintain its leadership. While admitting the merit of this argument, the strong achievement orientation is another distinctive character which is recognized by some Western scholars as well (e.g., McClelland, 1963). In addition to socialist indoctrination, the Chinese society at that time was filled with the achievement rhetoric, such as persisting in the face of severe difficulties, sacrificing short term gain for long term benefit, always striving for the highest standard of excellence (surpassing the level of world class is always emphasized), self-reliance and self-sufficiency, dare to do what others have never done and think of what others have never thought of, winning for its own sake, accepting change as the rule of the universe, promoting competitions in all activities, spiritual reward for excellent performance, encouraging innovation at the grassroots levels, and nurturing the sense of being one's own boss. Obviously, all these themes are achievement oriented. Extensive use of popular slogans and Mao's quotation was a common practice at that time. Many of them had strong achievement themes. For instance, "Try one's best to be successful (Guzu Ganjin, Lizheng Shangyou)," "Overcome thousands of difficulties and strive for success (Paichu Wannan, Qu Zhengqu Shengli)," "Study seriously and progress daily (Haohao Xuexi, Tiantian Xiangshang)," and "Work hard and work smart (Kugan Jia Qiaogan)."

Many role models promoted by the CCP also demonstrated the achievement emphasis of its education effort. An example in this regard would be the Dazhai Models that was set up in 1964 (Wu, 1993). Mao called on all Chinese peasants to learn from Dazhai ("Nonye Xue Dazhi"). Dazhai is a village (a brigade during the commune era) in Xiyang County of Shangxi Province. It was selected because collective interests rather than individual benefit was used effectively to promote production (Wu, 1993). This was a role model that maintained the principle of socialism and developed production at the same time. Besides the ideological implications, the story of Dazhai was full of achievement themes. Dazhai's natural conditions were very hostile. Its 130-acre arable land was scattered as forty-seven hundred small pieces on the ridges, hill-slope, and in the valleys (Wu, 1993). Draught and floods were constant threats. Soil erosion was severe. The quality of land was very poor. Nonetheless, facing those difficult conditions, Dazhai people refused to be pessimistic and wait for good luck. They determined to change the natural surrounding and improve the production conditions through their own effort. In several consecutive winter seasons, they manually built dams in the valleys, flatted slope land, and combined small pieces of land into larger ones. Consequently, the production conditions improved and grain output increased substantially. The Dazai story demonstrates that people's determination, persistence, courage, initiative, and hard work were the keys to overcome difficulties and make progresses. As a matter of fact, rich achievement themes and socialist ideology were always mixed in all the role models promoted by the CCP and other forms of education. Thus, while people were constantly

exposed to ideological indoctrination, they were also bombarded with achievement concerns.

The achievement emphasis in CCP's education effort is closely related to the achievement orientation of its mission. In general, every revolutionary organization has an achievement orientation because its mission is to change a society for better. As a revolutionary party, the CCP is no exception. However, its achievement orientation is particularly strong due to the unique features of its mission. Contrary to most people's perception, to establish a socialist society then transform it into a communist society is not the mission of the CCP. The Marxism-Leninism is just the means for accomplishing its mission.

Simply speaking, CCP's mission was to revive China as a strong nation in the world and regain the glory of Chinese culture that the nation had enjoyed for more than two thousand years. The key driving force for Chinese communists to join the revolution was the desire to accomplish this mission rather than the belief in communism (Chen, 1996). Such a desire was aroused and enhanced by two factors. First, in her five thousand years of civilization, China was defeated militarily several times but never culturally. In the modern world history, however, China was at most time in a culturally inferior position in its interaction with the West, which achieved its cultural superiority after renaissance movement and industrial revolution. For a relatively long period, this interaction was an exclusively humiliating experience on the Chinese side. It was an unprecedented experience for Chinese people that their culture was inferior to others. Second, from a historical perspective, China as a country used to be at the top of the

world. The Chinese rulers could always be proud that their country was the cultural center. Because of the humiliating situation, Chinese people were in a shameful position compared with the great achievement of our ancestors.

However, it is a tradition of Chinese culture that we should not be secondary to others and not disgrace our ancestors. As a popular Chinese idiom states: "Experienced a sense of shame then striking back (Zhichi er Houyong)." The sharp contrast between a backward China and the advanced West, between the past glory of our ancestors and the humiliating situation that our country was experiencing aroused a strong desire among Chinese people to revive the nation and regain the splendor of our culture. While shocked by the cultural superiority of the West and shamed by our ancestors' glory, Chinese people were highly aroused to search for routes to catch up. This desire became the main theme in almost every major event in the modern and contemporary Chinese history (Chen, 1994). Among many political groups that strove to revive the nation, the CCP was the organization that chose the strategies proposed by Marx and Lenin. Its choice proved to be the right one during the war period.

CCP's mission is typically manifested that when it won the revolution, what people celebrated was not the newly acquired political power. Instead, people were excited by Mao's announcement: "From now on, Chinese people have solidly stood up." "Our nation will no longer be bullied by others. We have stood up." (Mao, 1949:5). Shortly after the CCP was in power, many Chinese who had lived in the Western countries returned China to help the newly established nation (Qiang, 1996). Most of them were not communists. They returned because they were attracted and excited by the

opportunities to make China a strong nation in the world. For a long period, those people were the backbones of science and technology community in China. Because of this mission, the CCP always respected Dr. Sun Zhongshan as the pioneer of Chinese revolution. Sun led the military struggle that overthrow the Qing Dynasty and founded the nationalist government. But he was never a communist. A dream that underlies Sun's revolution effort was to build China into a strong nation that could "stand up in the world" (Zhou & Lin, 1992). This mission was also manifested in several major mass movements initiated by the CCP. For instance, the desire to surpass the West in a short period was an important driving force for the Great Leap Forward. "Surpassing Britain and catching the US (Ganyin Chaomei)" was a popularized goal of that movement.

Unfortunately, CCP's education effort fell into a similar dilemma as what happened in the feudal time China. As a communist party, the CCP had to follow the basic principles of socialism, such as public ownership of the means of production, no oppression and exploitation, and the common interest of the society preceding individual interests. The essence of those principles is to prevent people in a society from being divided into oppressor and oppressed classes. Those principles then set boundaries for people's actions within a socialist society. For instance, the societal interest should be above individual interests, individual should not possess any means of production, and individualism should not be encouraged.

Socialist ideology and enthusiasm for excellence were in fact conflict with each other to some extent. The CCP extraordinary effort in arousing achievement concern in the society would inevitably lead people to step out of those boundaries. For one with

high n Ach would like to be rewarded for individual performance and recognized as individual contributor. Those demands would go against the Party's emphasis of promoting collectivism rather than individualism. To be an entrepreneur, an occupational choice that is highly attractive to those with high n Ach, is completely incompatible with socialist ideology. As the inseparable practice of being an entrepreneur, hiring workers, owning the means of production, and accumulating personal property are all considered typical capitalist characters.

Therefore, to maintain the basic principle of socialism, various actions taken by the CCP would inevitably block the natural channels to vent achievement energy. For instance, to be an entrepreneur was strictly prohibited; the expression of individualism was discouraged; individuals could not decide their actions and had to follow the arrangement by the government; and material rewards to individual performance were kept minimum. During Mao's era, a mistake frequently admitted by the Party was "hurting people's initiative." These conflicting emphases were an important source of such a mistake. For the CCP aroused achievement concern on one hand but blocked the effective channels to release it on the other hand. Consequently, because people could not find proper channels to release their achievement energy, then they simply lost interests to demonstrate their initiative. In the pre-reform countryside, a common phenomenon was going slow by peasants (Mo Yangong) (Zhou, 1996; Wu, 1993). Fengyang County is where the Xiaogang Village locates and HRS was initiated in the economic reform. A comment made by the county Party secretary, Chen Tingyuan, who helped the spread of

HRS, accurately described the awkward situation caused by those conflict emphases during Mao's era:

Chairman Mao really wanted to develop the rural economy. He tried many methods, such as learning from Daizhai and building the Daizhai style county nationwide. However, they all failed to whip up people's enthusiasm. One movement followed another, such as the education of the basic guidelines, Four Clean (Siqing), blocking the capitalist road, fighting the rightists. Those movements never achieved expected outcomes. Peasants just simply would not do their jobs. In our Fengyang County, ninety thousand people died during the famine. The government had distributed four hundred million jin foods to people. Those are all huge costs. But things never got better at that time (Cited in Wu, 1993:250).

In addition to blocking the natural channels of releasing achievement-related energy, to deal with the dilemma, the Party virtually adopted the same strategy used in the traditional Chinese society. It opened an official channel for the expression of achievement energy. That is to become government officials, the Party members, or intellectuals who serve the Party. This practice diverted the expression of achievement energy into a less effective direction in terms of economic development and had negative impact on the nation's economy as well. As what happened in the traditional Chinese society, the official channel was virtually the only way of upward mobility in the society.

It is a common phenomenon in China that to be a government official is used as reward to people with significant accomplishments. Those accomplishments could be in any occupations, such as sports, science, arts, industry, and agriculture. For instance, Zhang Baifa, a current vice mayor of Beijing city was a model construction worker during 1950s. A standing member of the Party's Politburo, Li Ruihuan, had the same

experience. These two were actually buddies at that time. Chen Yonggui, a model peasants and the Party secretary of Dazai village, was a vice premier of the nation from 1975 to 1980. This practice still has its market in China today. For instance, the opportunity to become a government official was used as an incentive to encourage rural people to set up businesses in many places, including Wujiang City and Tongliang County. Many successful rural entrepreneurs were appointed government officials as a way of recognizing their contributions. Such a practice has drawn criticism that it wasted precious human resources by transfer people from their most qualified positions to positions that they were not well suited. Several local officials I talked with had these experiences. Their reactions were different. Basically, in areas where the business environment was good, the officials preferred to be entrepreneurs. In areas where the business environment was not very good, then people felt that the life of a government official was much easier.

What discussed so far suggested that the Party not only helped to enhance the achievement orientation in the society but also blocked its expression. Under such a circumstance, the achievement energy of Chinese people kept building up and waited to be released. In the economic reform, the Party gradually removed artificially imposed barriers in response to people's initiative and finally paved way for expressing achievement concerns through the most effective channel, to be an entrepreneur. Because the energy was accumulated in a long period, it was released in an explosive manner. Once the opportunities were opened, everyone in the society was excited to try his/her entrepreneurial potential. Many popular phrases in the mid 1980s vividly described this

phenomenon, such as "Go after money (Xian Qiang Kan);" "All Chinese people were doing business (Quan Min Jing Shang);" and "Among a billion Chinese people, nine hundred million were doing business and the rest were trying every other thing (Shiyi Renmin Jiuyi Dao, Haunyou Yiyi Zai Hugao)."

In summary, an optimal level of collective achievement orientation, which is a critical precondition for large scale entrepreneurial activities, always exists in Chinese society. It is nurtured by the cultural tradition and enhanced by CCP's education effort. The reasons that the business community was not fully developed in Chinese society were that various actions taken by the government deprived opportunities from people to practice their entrepreneurial potentials. Once opportunities are available, Chinese people would actively engage in business activities and were often very successful in doing so. The strong achievement concerns of Chinese people were clearly demonstrated by the nationwide enthusiasm in business activities and the rapid development of rural enterprises after the economic reform.

3. Rural-urban dualism: Why did non-agricultural production flourish in rural areas?

Judged by business conditions, obviously rural areas are not ideal places for massive development of non-agricultural production. For instance, transportation was very inconvenient in rural areas. Many rural enterprises were set up at places with no access to roads. An entrepreneur of Shengze Township, Wujiang City, told me a story. His factory located in his home village. At the early time, they invited an engineer from a

state research organization to help setting up the equipment. In order to get to the factory, first, the engineer needed to take the bus to Shengze Township. Then they had to use a small boat to get him because there was no road reaching their village. He also told me that they had to dismantle two bridges to transport equipment to the production site by boats. In Jinjiang City, a story described that a businessman took an airplane to go home. The plane landed in nearby Quanzhou City. Then the businessman had to walk ten kilometers through paddy field to his home village where his business located. Other critical business conditions, such as communication facility, information availability, access to technology, power supply, and marketing channels were all in similar situations as well. By conventional thinking, it really makes no sense to set up a business in those inconvenient places.

Given these unfavorable conditions, it would raise a question why so many entrepreneurs established their businesses in rural but urban areas and how they managed to overcome the difficulties. To explain this phenomenon, the analysis would be focused on the impact of the rural-urban dualism structure of Chinese society. This structure contributed to both difficulties and opportunities in rural non-agricultural development.

The rural-urban dualism structure in Chinese, which segregated the rural areas from the urban areas, was formed and enforced by a series government action. There are several significant impacts of this structure on rural people. First, it gave preferential treatment to urban people in distributing various resources in the society. For instance, rural people were left out of the state welfare network that guaranteed urban people for food, housing, clothing, medical service, and job opportunities. They had to rely on their

own effort to meet their needs for those resources. Second, it imposed many constraints on rural people. For instance, rural-to-urban migration was strictly prohibited; rural people were not allowed to work in the urban areas; and the development of rural economy could not compete resources against the state enterprises that were primarily located in urban areas. The following discussion will focus on the impact of this dualism structure on Chinese rural enterprises.

A forced choice: the blockade of rural-to-urban movement.

A straight answer to the question just raised is that it was an imposed reality rather than a voluntary choice by rural entrepreneurs to set up their businesses in rural areas. They simply were not allowed to do so in the urban areas, particularly to operate industrial businesses. Because of the dualism structure, no matter what production activity that rural entrepreneurs want to participate, in most cases, they can only do it in rural areas if they would not like to be in marginal positions.

The difficulties for rural people to set up businesses in urban areas are primarily associated with various government actions of prohibiting rural-to-urban migration. In the first Five Year Plan period (1953-1957), there was no restriction on rural-to-urban migration. Rural people could move to cities freely. The massive government effort of national industrialization created many employment opportunities in urban areas. Many rural people left their homes to work in cities (Zhou, 1996). As the result, the urban population grew rapidly. Between 1950-1957, 60% of net population growth in urban areas was from rural-to-urban migration. However, the development of the urban

infrastructure was far outpaced by the huge influx of rural migrants. They put heavy burdens on the cities and caused many problems, such as in housing, transportation, and food supply. Also the drain of rural labor caused some negative effects on agricultural production (Han, 1993). In recognition of these negative consequences, between 1953-1958, the Government issued a series of administrative decrees and documents to stop rural-to-urban migration. As result, a rural-urban dualism structure was gradually formalized in Chinese society.

Hukou system is the center piece of the dualism structure. It was formed by a state law in 1958 (Han, 1993). This system classifies Chinese people into two major categories: rural and urban residents. For those who are classified as urban residents, they had the privileges to enjoy employment opportunities in state enterprises, to be covered by the food rationing system that guaranteed food supply, to receive the ration of many living necessities, to live in cities, and to be protected by various state welfare programs, such as medical service and housing facility. If one is classified as rural resident, he could not enjoy any of those benefits. Legally, state organizations were not allowed to employ people without urban resident status. On the other hand, non-state organizations virtually do not exist in urban areas. Therefore, there was no legitimate channel for rural people to find jobs in urban areas. Without food coupons, one cannot get food in the cities because all state owned food stores and restaurants need the food coupons in addition to money to sell people food. Without urban resident status, it is illegitimate to stay in the cities for a long time. Thus, the dualism structure created two segregated groups in Chinese society. Since there were so many benefits attached to city resident status, people would be

desperate when they were about to lose it. In the government actions to send urban youths to rural areas for reeducation, a measure resented most by the urban people was that their city resident status would be revoked. They would be registered as rural residents at the villages where they stayed. Once one loses his city resident status, it would be almost impossible to get it back.

Besides the distinction of residential status, there is another feature of Chinese society that further enhances the segregation function of the dualism structure. As late as the mid 1980s, almost every Chinese was attached to a grass-roots organization. In urban areas, if one has a job, his work unit will be the attached organization. If one does not have a job, it will be the street committee where the person resided. Rural people were attached to production teams under the commune system and villages after the commune system was abolished. At that time, almost all activities had to go through an attached organization. If one wanted to get married, to have a child, to study abroad, and to open a business, the first step was to get the permission from the attached organization. Without that permission, nothing can be done. After economic reform, the role of organization became weaker but was still formidable. Since rural people attached to their home villages that had no jurisdiction in urban areas, it is almost impossible to initiate action in urban areas through their attached organization. On the other hand, the administrative body of a village enjoys significant freedom within its boundary, it can allocate necessary resources to people who would like to start a business. The most critical resource would be the land for a production site. In most case, it can only be obtained at one's home village. This is an important reason that most rural enterprises started at the home villages

of the entrepreneurs. Even at the time I did the field study in 1995, many enterprises were still operated in people's home village.

Under such a dualism structure, rural entrepreneurs are virtually deprived the opportunities of development in urban areas through legitimate channels. The only places where they can demonstrate their entrepreneurial potentials are in rural areas, more specifically, in their home villages. Actually, there is a positive impact of the rural-urban dualism on rural enterprises. Because rural-to-urban migration is prohibited, it forced rural surplus labor to stay in rural areas. That created a sufficient pool of labor force for rural non-agricultural development. As what happened during the first five-year plan (1952-1956), people did not display strong initiative in rural non-agricultural development because they could move to cities to participate in industrial production under much better conditions. Thus, an interesting conclusion can be reached that the rural-urban dualism prevented rural entrepreneurs from setting up industrial businesses in urban areas and created opportunities for them to do so in rural areas.

Defusing urban resources to rural areas: The government efforts.

The rural-urban dualism in Chinese society is unique because it acts like a one-way mirror. On one hand, it segregates rural from urban areas, a feature recognized by many (e.g., Zhou, 1996; Han, 1993). However, there is another feature that few had mentioned but has important implication for the development of rural enterprises. While the government acted to stop rural-to-urban movement, it also made persistent effort to diffuse urban resources to rural areas. It means that the road from rural to urban was

blocked, but the road from urban to rural remained wide open. There is no restriction if one wants to move to a rural area from a city. Naturally, most people would not take this option for the living conditions are much better in urban areas. It becomes an important feature of the rural-urban dualism because the government took actions to promote such movement. In several occasions, it used its administrative power to move many urban people to rural areas. One was in early 60s', to relieve the pressure on the urban economy, which was devastated by the Great Leap Forward and commune movement, 30 million urban people were sent back to rural areas. Another major event is to send 12 million urban middle and high school graduates to rural areas to receive reeducation during the Cultural Revolution.

Besides the migration issue, the urban-to-rural movement has a much broader implication. It is guided by CCP's goals of narrowing and eliminating the three great gaps: the gaps between rural and urban living conditions; between agricultural and industrial production; and between labor and intellectual work. The rationale is that difference creates inequality, inequality creates conflict, and conflict prevents full expression of people's enthusiasm hence has negative impact on economic development. As part of the effort to achieve those goals, the government took various actions to defuse and disseminate urban resources to rural areas. Those activities were particularly intensified during the cultural revolution. One major project was to defuse medical service resources. It included sending medical personnel to rural facility, establishing a grass-roots medical service network in rural areas, and training rural youth to be "bare-foot" doctors. This effort significantly improved the conditions of medical service in rural

areas. The Westerners were impressed that although China lagged far behind on major economic indicators, the infant mortality and life expectancy of people were no less than the advanced nations (Gillis, 1992). An effective grass-roots medical service network was an important reason for that achievement. Zhinong (help and assist peasants) was a popular term at that time. It manifested in several ways, for instance, providing technical support to agricultural production, sending technician squads to repair agricultural machinery, and sending artists to entertain rural people. During the harvest seasons, many urban people were organized and sent to rural areas to help. The practice of Zhinong remained in effect even after the economic reform. For instance, in 1986, the Party general secretary, Hu Yao Bang, called on the officials of central government to go to poor rural areas and help people there to improve production and living conditions. In 1987, the author worked for the Chinese Sciences Academy and participated in a project. My task was to give a seminar on science and modern technology to a group of grassroots officials in Sishui County, Shangdong province. Though this idea was criticized for its lack of effectiveness and the waste of resources, it did reflect a mentality of the government to encourage the flow of urban resources to rural areas.

The government efforts have important implications to rural enterprises. First, it is ideologically correct to help rural economy. Any actions that improve rural living and production conditions can be justified in terms of narrowing the three great gaps. To help the development of rural enterprises falls into this category. This is a critical ideological foundation for policy adjustments toward rural enterprises. For instance, in 1977, a joint report submitted to State Department by Agricultural Ministry and Light Industry

Ministry listed eliminating "the three great gaps" as one important contribution of rural enterprises (Cited in Yu & Huang, 1991). The Party secretary of Jiangsu Province was among the earliest to support rural enterprises. His supportive attitude was critical that Jiangsu Province was ahead of all other provinces in the development of rural enterprises. He also used these goals to justify his attitude (In Yu & Huang, 1991). In 1981, in a letter to the general secretary of the CCP, Hu Yaobang, a high-rank Party official went even farther to claim that to suppress rural enterprises was equivalent to suppress rural economy (in Yu & Huang, 1991). That letter triggered a series of favorable policy adjustments.

Second, it means that though rural people are restricted in rural area to practice their entrepreneurial potentials, the development does not have to be limited to rural resources. For there is a real possibility that they can get help through official channels to utilize urban resources in business operation. The "horizontal cooperation" (cooperation between urban and rural enterprises) is an important form of developing rural enterprises and encouraged by the government (Byrd & Zhu, 1990; Yu & Huang, 1991; Tao, 1988; Gary, 1988). In this form of development, state enterprises subcontracted with rural enterprises to produce parts for them. At the meantime, they also help their partners in technical support, raw materials, capital, and market channels. The once famous "Bailan model" is a typical example of the "horizontal cooperation" (Liao, 1993). Bailan was a factory in Beijing that manufactured wash-machine. Since 1979, with the encouragement of the city government, it had subcontracted its part production to more than fifty rural enterprises. This practice substantially increased its output from 7000 units in 1979 to

280,000 units in 1984. The motives for state enterprises to do so were for their own benefits, such as access to land and low cost labor. Nonetheless, this practice did help rural enterprises to gain access to various urban resources. As a matter of fact, many rural enterprises, including several factories I visited (for instance, a chemical factory in Yueyang City and a lock factory in Meiyang Township of Wujiang City), were established through "horizontal cooperation."

After the economic reform, to eliminate poverty in rural areas is an important goal of the Party. One approach to achieve this goal is to develop rural enterprises in poor areas. This is another official channel for rural people to use urban resources. In Yueyang City of Hunan Province, I interviewed a college teacher. He was sent to a backward area to help the development of local economy. With his assistance, a bamboo floor factory was set up that utilized the local bamboo resource. The factory performed very well and contributed significantly to the local economy. Another example shows that a local official of Baishu Township, Wujiang City, was sent to a poor county in Shanxi Province. He managed to get money from a government agency in charge of helping poor areas and set up a business. As mentioned previously, in 1987, the author participated in a project of helping the poor areas. In that project, there were two items directly related to rural enterprises. One was to provide technical support in utilizing the pottery clay resources. Another one was to help a factory to master the technical know how in producing catgut string used for tennis rackets. In 1985, to promote transferring technical know-how to rural enterprises, the government launched "Spark Plan (Xinhua Jihua)" as part of the seventh five-year state plan (1986-1990) of economic development (Chen, 1988; Yu &

Huang, 1991). It included designing 100 sets of production equipment suited for rural enterprises, setting up 500 model enterprises in rural areas, and training rural youth and local officials. The plan also encouraged the state scientists and engineers to work for rural enterprises.

Extracting urban resources: Unofficial links between rural and urban areas.

Beside the channels created by the government effort, many unofficial links between rural and urban areas were more effective and powerful in extracting urban resources for the development of rural enterprises. Although some would call the rural-urban dualism structure as castelike (Zhou, 1996), the two sectors are substantially integrated with each other. One might observe some features of a caste system. They were at most on a temporary rather than a perpetuated base. It was completely different from the caste system of India.

Those unofficial links are in several forms. The first one is the bond among family members. China is traditionally an agricultural society. Compared with the Western nations, she has a short history of modern industry and commerce. The process of urbanization is still in its early stage. Consequently, the rural roots remain strong in urban areas. Many urban people are originally from rural areas. Those people at least spent their adolescence in rural areas. There are more urban people who have direct relatives in rural areas. Or taking a different perspective, there are many rural people who have direct relatives or family members in urban areas. This is a very strong link between rural and urban areas because China is a society that the bounds among family and

extended family members are greatly emphasized. Second, Chinese culture has nurtured a strong sense of belonging to a region. People who are originally from the same area are naturally bound together. The bound is particularly strong if people are from the same village or the same town or xiang. People connected by regional bound can ask help from each other. The family and regional bounds extend beyond the link between rural and urban areas. They also link domestic and overseas Chinese as well. In the areas where many overseas Chinese were originally from, those links provide local people with the access to various overseas resources in the development of rural enterprises, such as seeds capital, raw materials, and marketing channels. Jinjiang City, one of the three main research sites, is known for its connection with the overseas Chinese. There are about one million overseas Chinese of Jinjiang origin. This factor had important impacts on the rural enterprises in the area. Among entrepreneurs I interviewed, some of them received seeds capital from overseas relatives to start their businesses. For instance, a garment factory in Qinyang Township was started with four thousand Renminbi yuans from overseas relatives in 1987. It was a very small amount of money, about \$800. However, it was sufficient enough to start a small garment factory. That company grew rapidly and was a star enterprise when I interviewed the entrepreneur. Also several companies were established by the direct investment of overseas relatives, for instance, a garment factory in Yinling Township and a factory in Dongshi Township that produced the parts of video cassette.

The third type of link relates to CCP's revolution strategy of surrounding cities from rural areas. This practice built a strong bound between the CCP and rural areas. For

many rural people joined the Party's military force and became government officials in urban areas after the revolution succeeded. Fourth, several major movements after 1949 provided opportunities to establish new rural-urban relations. For instance, in the early 60s, 30 million people were sent back to rural areas. During cultural revolution, 12 million urban youth were sent to rural areas for reeducation. Their stay in rural areas ranged from more than 10 to two or three years. Most of them lived and worked with peasants. Also, many government officials were sent to rural areas for reeducation during that period. The links established during the cultural revolution were much more substantial because the interactions between rural and urban people were intensive. Those links were much fresher and presumably more effective. Fifth, rural youth who served in the military is another group of people who contribute to the links between rural and urban. After their service, some stayed in urban areas and most returned to their home villages. This group of people not only established links between rural and urban, but also the links between rural and rural. Those were five types of links that existed before the take-off of rural enterprises. After rural enterprises started rapid development, new links were established as the results of business activities. For instance, my field study could be considered as a way to establish links between rural and urban, even abroad. Many entrepreneurs asked me to help them to explore business opportunities. If I happen to know something, I will definitely contact some of them.

When starting a business, usually several of the above discussed links were utilized. Fengzhu Bleaching Dying Company in Qinyang Township, Jinjiang City, is a good example in this regard. Four people were critical in setting up the company, two

peasants of Zhushuxia village, an urban resident of nearby Quanzhou City, and a senior engineer from a state research institute in Beijing. The city resident got connected with Zhushuxia village because he married a woman there. The senior engineer was born in that village and lived there until he went to college. After the economic reform, the engineer made frequent travel back to his home village. In his words, he would like to do something for his home village. By the way, these words were also said by many overseas Chinese with Jinjiang origin when they invested in Jinjiang City. During one of his trips in 1987, he met the other three people and they decided to start the business. The engineer made several critical contributions. First, he proposed the idea of bleaching dying business for he knew that could make money and was specialized in that field. Second, he persuaded the state research institute to let him work for the company in a form of technical assistance and provide some initial capital. Third, he was instrumental in obtaining the production equipment. When he proposed the idea of bleaching dying business, he already knew a set of readily available equipment. To cut a long story short, during the cultural revolution, as what happened to many other intellectuals, he was sent to a public farm to receive "the labor education." During his stay, he helped to set up a bleaching dying factory. The whole set of equipment was built under his direction. That factory was deserted after all intellectuals returned to cities and the equipment was left running down there. He knew that he could use that equipment in the newly established company. Thus, he made a trip to the public farm and negotiated to get the equipment at a very low price. In his words, the price was so low as if he paid for a pile of wasted metal. That equipment was shipped to the production site in Jinjiang City, assembled under his

direction, and worked very well. The urban resident was instrumental in business operation, particularly marketing and raising capitals. The other two village people handled all local issues. They were ex-military personnel and that experience brought some benefits in business operation, as one person told me. This brief description shows that family bound, regional bound, the link established in the cultural revolution, and military service experience worked together in the process. The overseas Chinese connection also played a role as well. As just mentioned, the urban resident married a woman in Zhushuxia village. She had a sister in Hong Kong. Through this connection the company became a joint-venture with overseas capital and enjoyed some tax benefits granted by the government.

Getting help from "The Three Old" was known as an effective strategy at the early stage of development. The term old refers the shared previous experiences that could link people together, such as classmate, neighbor, service in the same military unit, living in the same village, and childhood friendship. There are several variations of "The three old." One would be old classmates, old friends, and old xiang (people who were from the same village or county). The help from those people could be in any form, such as business opportunities, supply of raw materials, and technical assistance. In studying rural enterprises, people were amazed by the almost perfect resemblance between the structure of rural and state industrial enterprises. Nationwide, rural industry has significant presence in almost all major sectors of industry, except energy and power (Liu, 1990: cited in Harry Wu, 1994). However, if one understands the complex links between rural and urban, it would not be difficult to explain this phenomenon. Those links were formed

randomly. There was no deliberated effort to restrict them in particular fields. Thus, they penetrate in every sector of industry. On the other hand, rural people utilized those links randomly as well. "The type of relationship determines the type of business" (Tao, 1988). They used whatever they had to set up their businesses. Consequently, the two-way random selection created two industrial sections that resembled each other.

As the above discussion showed, there were extensive links, both official and unofficial, between rural, urban, and even overseas areas. While the rural-urban dualism structure restricted rural people to develop non-agricultural production in rural areas, those links allowed them opportunities to access all necessary urban or even overseas resources. It is a situation that one has to stay in rural areas but has the opportunity to be a successful entrepreneur in terms of supply of resource.

Rural people's readiness for entrepreneurial activities: A by-product of rural-urban dualism.

Another impact of the rural-urban dualism on rural enterprises is that psychologically, rural people were better prepared than their urban counterpart for entrepreneurial activities once opportunities were available. The dualism structure imposed both material and psychological hardship on rural people. But hardship can make a strong person stronger. Once the environment changed, what rural people had learned and be trained in dealing with harsh living and working conditions became valuable personal assets in practicing their entrepreneurial potentials.

In addition to affect people's daily lives, the dualism structure also left its mark on the economic activities of rural and urban areas. Basically, while urban people were covered by the state welfare system, the urban economic activities were covered by the state planning, an economic equivalence of welfare system. For a business operated under the state planning, its funding, personnel, marketing channel, production plan, and supplies are all controlled and guaranteed by the state. The tasks of management is to break down what assigned by the state to individual level and monitor the process (Shen, 1991). People only need to fulfill the assigned tasks according to the state planning. The survival and development of a business are determined by the state rather than by the market conditions. People's jobs are also guaranteed regardless of organizational and individual performance, if they are part of the planned economy. The income level was low but the living necessities were assured through the ration system. People generally don't need to make personal efforts to have their ends meet because that was the responsibility of the state. One consequence to stay in such a system for a long period is that people are lack of skills and knowledge to deal with situations where individual effort is critical for success, such as entrepreneurial activities. This is not because people are not motivated to do so. It is simply because they were deprived opportunities to learn the knowledge and practice skills.

The situations in rural areas differed significantly. Though the state had a strict plan in agricultural production, particularly in grain production, other economic activities were not covered by the state planning. A production team had to fulfill the purchase quota by the state. For that purpose, rural people could get various supplies, such as

chemical fertilizer, pesticide, and seeds through government channels. Otherwise, rural people were primarily left on their own to make their living. Even in grain production, the state transferred a significant portion of the responsibility to rural people. For instance, rural people had to set up their own companies to produce fertilizer, machinery, power supply and living necessities that specifically aim at the consumption of rural people, as what were described in "Siwei (four services)" policies of developing rural enterprises before the economic reform. Because rural people were not covered by food ration system, they had to produce the food for their own consumption. How much food they could get depended on the performance of the whole production team. If harvest was good, they would have enough food to eat. If not, they might have to experience hunger because state relief was not enough to meet the basic need. Besides food, rural people also had to pay for medical service, housing, and education for their children. They had no retirement benefit and had to rely on the family members when they were old.

Compared with the benefits enjoyed by urban people, rural people were at a disadvantaged position and discriminated against by the dualism structure. If the statue of quo could be maintained, it was possible that a castelike society would be formed with rural people at the bottom of social hierarchy. However, Chinese wisdom believes that a bad thing can be turned into a good thing and vice versa. As a Chinese proverb says: "Thirty years on the east bank of a river and thirty years on the west bank of the river." The world is in forever change. Once the situation changed and the opportunity for practicing entrepreneurship emerged, rural people found that they were better prepared to take advantages. Through their efforts to make their own living, rural people had a better

sense of how personal performance affected reward to individuals. Tedious agricultural work trained them for strong physical ability to endure hard work. Because they were out of the state welfare system, they never formed a mentality of expecting the help from the government. Thus, they would spontaneously make personal efforts once opportunities emerged. Finally, rural people were generally very poor compared with the conditions of urban people. Virtually anything they tried would improve their lives. Therefore, they can be less worried about the risk of losing what they have already enjoyed.

Under the dualism structure, the entrepreneurial potentials in rural areas were suppressed but never substituted. Once the opportunities are available, rural people are both motivated and capable of engaging in various entrepreneurial activities. On the other hand, the entrepreneurial potentials among urban people were not only suppressed, but also substituted and corrupted. State employees lost their entrepreneurial competencies under the umbrella of the state planning and welfare, though their collective achievement can be high. Generally, urban people, particularly those in state enterprises and organizations, were slow to respond to the entrepreneurial opportunities than their rural counterparts. The issue of psychological readiness of rural people in practicing entrepreneurship will be further discussed in Chapter Six and Seven.

4. Opportunity for the majority: A precondition of massive development.

People were not only impressed by the exceptional performance of Chinese rural enterprises, but also the massive scale of this phenomenon. So many enterprises had been set up in the vast countryside and so many rural people got involved, as both

entrepreneurs and labor workers. The sheer number of rural entrepreneurs itself is impressive enough to be a first page story. In 1995, there were 22 million rural enterprises in China. Obviously, the number of rural entrepreneurs should be greater than 22 million. For rural enterprises to collectively reach such a huge scale in a very short period, one condition had to be met. That is, opportunities to practice entrepreneurship should be accessible to the vast majority of rural people, especially at the initial stage of development. As discussed in the previous sections, the cultural tradition and CCP's education effort had formed a high level of collective achievement in Chinese society. Rural people were also better prepared to act entrepreneurially. It implies that there was a huge pool of rural people with strong entrepreneurial potentials. However, if opportunities were only available to a selected few, many rural people could not become entrepreneurs though they might have optimal potential to do so..

The structural perspective in sociological literature holds that one's social status could significantly affect an individual's developmental potential in a society. A status is usually associated with some prescribed privileges in terms of access to various resources in the society. For instance, the son of a capitalist may have easy access to a sufficient amount of capital for business activities, whereas it would be very difficult for a working class person to enjoy the same privilege. In a society where people were divided into different social status groups prescribed with differentiated privileges, the distribution of opportunities cannot be equal among people.

Fortunately, the situation of Chinese society in the late 1970s and early 1980s did allow business opportunities to be accessible to the majority of people in both urban and

rural areas, thanks to the persistent effort by the CCP to destroy the class structure and make everyone in the society equal. For instance, after the civil war, the CCP conducted several major movements for this purpose. Those movements turned the whole Chinese society up-side-down several times. Consequently, people of different social groups were thoroughly shuffled and the whole society was equalized to a significant degree. Although difference still existed, compared with other societies in the world, it was relatively insignificant. Although some people may enjoy some advantages over others in obtaining capital, raw materials, technology, and quality labor force, the differences were not substantial enough to diminish the possibility that entrepreneurs could strive for business success through their personal efforts.

The land reform movement is the first major effort of the CCP. Re-distributing land to poor peasants was the goal of this movement. It started at the early time of guerrilla base period and completed in 1952. As result, the landlord class was destroyed that used to control most land and was the most privileged group in rural areas. Then the Commercial and Industrial Reform (1956) in urban areas successfully bought out urban capitalists and deprived their privilege of business operation. Though those people might still enjoy better living conditions, they did not have any opportunity for further development. The agricultural collectivizing movement (1956-1957) followed by Commune Movement (1958) further leveled status difference in rural areas by convert a means of production into collective property.

It should be noted that although the CCP tried hard to create an equal society, its highly centralized political and economical systems allowed a small group of bureaucrats

easy access to various resources. Thus, a privileged bureaucratic group was forming in society. This trend was enhanced after that the Great Leap Forward and Commune Movement ended disastrously. As a matter of fact, those two movements to some extent could be viewed as distributing opportunities to the majority of the society. They weakened the power of bureaucrats. Then the disastrous economic consequence forced the Party to adopt a series of readjustment measures that significantly strengthened the power of the bureaucratic group. Fortunately, before the bureaucrats were able to form formidable interest group, they were fatally attacked by a series of mass movements during the Cultural Revolution., when CCP's effort to destroy class structure reached the highest level. Shortly after the Cultural revolution started, the whole bureaucratic system was dismantled by mass actions. Government officials were severely attacked both physically and psychologically by those who used to be at the lower levels of social hierarchy. The powerful became powerless and the powerless became powerful almost overnight. After the initial shock in the society, there followed several more major shuffles between rural and urban, bureaucratic and grassroots people, and the privileged and the less privileged. For instance, 12 million urban youth were sent to rural areas to receive reeducation from peasants; labor workers from factories joined the management of many state organizations, such as research institutes and schools; and government officials had to periodically go to rural areas to participate in labor work. Those activities even affected the most privileged. The children of highest ranked government officials had to go to rural areas to receive reeducation as those of ordinary people did (He & Gao 1995). Even in 1977, the Party Chairman and Premier, Hua Gou Feng, sent his daughter

a remote village in suburban Beijing to receive reeducation. Then after Mao died in 1976, those who benefited during the Cultural Revolution were deprived their newly acquired privileges by those who suffered. Thus, until the economic reform, the whole Chinese society was in endless reshuffling that prevented any social group from gaining stable privileges. There is hardly any parallel in the world history that could match the thoroughness of societal shuffling between 1949 and 1976 in China.

Furthermore, at that time, the difference in the privileges prescribed to different social status was nominal and so does the difference in economical power. This is the consequence of CCP's persistent effort to equalize the society as well. In 1975, the leftist group even adopted a measure in Shanghai City, the largest industrial and commercial center of China, to set the monthly salary of every new worker of state enterprises at 36 renminbi (\$12). If this measure holds up, after several decades, there should be no income gap. This is an extreme case and it did not live long. However, as the results of CCP's effort, the gap between rich and poor is very small. It is even smaller in rural areas. For instance, the suburban of Shanghai City is one of the richest rural areas in China. Its per capita annual income in 1978 was just 278 renminbi (roughly \$90 at that time). Such a small difference might be easily observed in terms of the quality of daily life, but not in the financial strength of business activities.

When Chinese economic reform started in 1978, it was based right on the legacy of cultural revolution. Actually, the strong mentality for equality in the society often created problems for reform effort in state organization. Because everyone was equal, it was very difficult to introduce measures that reward people differentially in terms of their

performance and contribution. For instance, to relieve the financial hardship of intellectuals for purchasing books, organizations would provide them with some assistance for this purpose. However, when the measure was put in practice, even the janitors and door attendants wanted to be included because everyone was equal. There was no way that one got something but others didn't. This example might be alien to those who are not familiar with China. But it is a real story. It happened everywhere, including the work units where the author worked in China. This example does depict a picture that shows how equal Chinese society was at that time. This was different from the situation of the Soviet Union where the reform started with a well-formed and privileged bureaucratic group.

In explaining the success of rural enterprises, the issue of cadre bias is often raised. It suggests that the Party and government officials are in advantaged positions to be successful entrepreneurs because their official statues allow them many privileges. These privileges include easy access to credit, supply, market, and critical information. As I observed in China, the cadre bias was rather a myth than truth. Those who strongly provoked the explanation of cadre bias were usually in frustration for their own failures and in jealous of others' success. It is true that many rural entrepreneurs are government officials. However, many of them became so because they were successful entrepreneurs. The government rewards their successes by appointing them as officials. Another reason that many grassroots officials became entrepreneurs was to respond to the call of government. The local government even set generous incentive packages to encourage officials to enter entrepreneurial positions in order to promote the local economy. For

instance, The local government of Yueyang city, Hunan Province encouraged officials to help open businesses in rural areas. They were allowed three years leave and their positions in the government would be retained if they preferred to come back. In some areas, rural enterprises had successful development because the officials took the initiative and set up good examples.

There are many examples that being a government officials may even have negative impact on entrepreneurial activities. In Jiangnan areas, at the initial development stage of rural enterprises, the management team of a company often consisted of grassroots officials. Soon these people were not able to perform effectively in business operation because they lacked of skill and optimal level of motive. Then the higher level government had to replace them with people of strong entrepreneurial potentials (Tao, 1988). In my interview, those who were previously officials and now entrepreneurs often preferred to be officials because in that way lives would be easier. Then those who were previously successful entrepreneurs and now officials preferred entrepreneurial lives because of the excitement and freedom. Other findings also show that the cadre bias in rural entrepreneurs virtually does not exist (e.g., Odgaard, 1992).

It is true that some government officials and their children used power to make easy money. That does not work in entrepreneurial activities. In terms of entrepreneurial performance, as a group, the government officials and their children were actually in a disadvantaged position. They were used that everything come to them rather than make something happen through individual effort. Or in other word, they are used to "take" but "make." Or they might want to be successful entrepreneurs but lack of necessary

competencies. One of my entrepreneur friends had a vivid summary about the ways of making money by power and through entrepreneurial activities: "They make dead money. The money we make is alive." Saying in a simple way, it is the difference between catching a dead floating fish in a small pond and an energetic living fish in a lake. I asked many entrepreneurs about the impact of the past or current experience of being a government official on business operation. Their answers were almost identical. That is, it is almost irrelevant. Also it was impossible that the previous connections could cover all aspects of business operation. One had to make personal effort to operate a successful business.

5. Summary

This chapter is about several political, psychological, and social conditions that had important implications for the entrepreneurial activities in rural areas. First, the shift of the Party's policy priority from class struggle to economic development provided ideological foundation and strategic direction for the Party's actions in responding to people's demands. Under the new policy priority, as long as people's initiatives helped economy, the Party would encourage them. Given the dominant position of the CCP in Chinese society, such a shift had profound implication. For without the support of the Party, it could be very difficult for rural people to practice entrepreneurship.

Second, guided by the new policy priority and responded to rural people's initiative, a series of policy adjustments removed various administrative barriers for entrepreneurial activities. The new policies on HRS, specialized household, and

transporting and trading agricultural products played significant roles in this regard. Because these policy adjustments were introduced in a progressive manner, rural people also had time and space to be familiar with the basic ideas and practices of commercial production. Consequently, the development process prepared conditions for rapid growth of non-agricultural production in rural areas.

Third, given that the need for achievement (n Ach) plays a central role in entrepreneurial activities, this study tried to trace the sources of n Ach for Chinese people. Because the early childhood experience and cultural surrounding are important factors in shaping individual motives, the investigation focused on the value orientation of Chinese culture and the theme of CCP's education effort. The analysis concluded that Chinese cultural and CCP's education effort all had strong achievement emphases. As the consequence of being continuously exposed to the influences of Chinese culture and CCP's effort, collectively, Chinese people should have higher level of n Ach. Psychologically and be better prepared for entrepreneurial activities. Unfortunately, during the feudal period and before the economic reform, Chinese governments adopted various measures to channel n Ach related energy into non-entrepreneurial activities, such as being government officials. Those measures prevented business community from fully developed in China. Once the changing political climate provided people with opportunities for entrepreneurial activities, the long accumulated entrepreneurial energy was released in an explosive manner.

Fourth, the massive development of industrial production in rural areas by rural people was never observed in other societies. To shed some light on issues why and how

this phenomenon could happen, the investigation focused on a distinctive feature of Chinese society, the urban-rural dualism structure. The analysis showed that on one hand, this structure stopped rural-to-urban movement and prevented rural people from participating in urban economic activities, particularly in industrial sector. On the other hand, there were many official or unofficial channels within this structure allowing the transfer of urban resources to rural areas. Thus, once the political climate permitted people to practice their entrepreneurial potential in industrial, the only place rural people could do so was in rural areas, particularly within their home communities. Nonetheless, the existence of those channels provided them with minimum material and technical supplies that were necessary to support their attempts. Therefore, this dualism structure restricted rural people to participate in industrial production in rural areas and provided them with opportunities and conditions to do so.

Finally, at the time when the economic reform started, the persistent effort of the CCP had created an egalitarian society in China in which the gaps between different social groups were very small in terms of economic strength, social status, and political power. Though there was noticeable urban-rural difference, within rural or urban areas, people were fairly equal. Once the opportunities for entrepreneurial activities were available in rural areas, they could be equally accessed by the majority of rural people. This was an important condition for massive development.

Chapter Five

The stage on which rural entrepreneurs play the show

A popular Chinese saying says: "A very able woman cannot cook a meal without rice (Qiaofu Nanwei Wumi Zhicui)." It means that the optimal supply of necessary resources is critical to make something happen. Although the previous discussion emphasized the people factor for the development under extremely difficult conditions, I do not deny the importance of resource supply. In Chapter Four, the discussion showed that the political, societal and cultural conditions in the economic reform were in favor for rural people to practice their entrepreneurial potentials in rural areas. Then questions can be raised on some other critical conditions: Was there a market that has a sufficient capacity to absorb the production of rural enterprises? Did rural enterprises enjoy any competitive advantage in the market? Were there optimal supplies of resources to sustain the development in full potential? It is a known fact now that since 1984, the development in this section had been maintained at a very high speed and a massive scale for more than ten years. It would be interesting to look back and see what the actual situations were at that time.

1. Market conditions at the early stage of development.

Nowadays, when people in China gathered and chatted about their experiences twenty years ago, a frequent and favorite topic is about the severe shortage of consumer goods in the markets. People would joke about how excited they were for getting a little

wireless radio, a pair of new shoes, or just a meal with plenty of meat. They felt a little regret that they no longer experienced the similar excitement though the markets were saturated with all kinds of consumer goods and they had much more to enjoy. Those memories depict an embarrassing situation of Chinese markets at that time. Basically, severe shortage and huge demand were the most noticeable features. The following discussion will address three aspects of market condition in terms of their impacts on the development of rural enterprises: the demand situation, the supply situation, and the potential players in the markets.

The demand situation.

On the demand side of Chinese market, a striking feature at early 1980s was its huge capacity to absorb large quantity of cheap consumer goods. This situation was related to several factors. First, before the economic reform, the government adopted an investment policy that suppressed consumption. Consequently, the unsatisfied demand for consumer goods had been accumulating for a long time and becoming increasingly strong. Second, the egalitarian structure of Chinese society put most people at the same level in terms of their purchase power for consumer goods. It means that the demand can be huge but less differentiated. Third, the policy adjustments guided by the new policy priority of developing economy removed political and psychological constraints on consumption existed before the economic reform. And finally, people's income, particularly rural people's income, increased significantly in early 1980s as the result of the improved economic conditions. That provided a solid material base for consumption.

In addition to the demand for consumer goods, there were other demands that were not so obvious previously. Among them, serving the expansion need of state enterprises and the export were two important ones. Those demands were intensified by the basic strategy that the government promoted economic development in the reform process:

"Domestically, reforming the economy to stimulate growth. Internationally, opening the economy to participate in the global market" (Deng, 1984).

From a historical perspective, the Chinese government under the CCP had effectively neutralized the demands for consumer goods before the economic reform. As result, on one hand, the government was able to stay inactive in terms of improving people's living standards beyond subsistent needs. The term subsistent needs refers to the needs for basic food, clothes, housing, medical service, education, and so forth. On the other hand, people's unsatisfied demands for consumer goods kept accumulating and waited to be released. The demands were neutralized by the government in several ways, for instance, using administrative power to control people's income and limit their purchase power, setting the prices of non-subsistent consumer goods artificially high, and creating psychological pressures to refrain people from consumption.

a. Income constraints as an effective mean to suppress consumption.

The principle of socialist development strategy always puts the consumption at a lower priority. It emphasizes accumulation and building-up the economic base of a nation (Dong, 1988). Before 1978, the government policies on economic development were dominated by the concern for accumulation. People's need for non-subsistent

consumption was intentionally neglected, or in other words suppressed. To promote accumulation and suppress consumption beyond subsistent needs, the government used its administrative power and artificially set people's income at a subsistent level. People affected by this practice were government officials, state enterprise employees, and urban residents. Before 1978, the income in this group of people was very low, with the highest at about 300 renminbi and the lowest at around 30 renminbi per month (roughly \$100 to \$10 at that time). In 1978, the average annual salary in China was 615 yuans (\$200) (Chinese statistical yearbook, 1994). Monthly salary above 100 Renminbi yuans (about \$30) would be considered as a high income. Say that one's income was artificially set because it was irrelevant to one's potential and performance at work. Say it is subsistent because everyone's income is sufficient to cover the minimum needs for living necessities, such as food and clothes, but few could have extra money to spend on luxury goods. The meaning of luxury is in a relative term here. For most Chinese people at that time, a watch, a bike, and a meal in a restaurant were all luxury expenses.

To guarantee the living necessities, the Chinese government used a welfare network, a rationing system, and price control to provide people with housing, education, medical service, public transportation, food, and clothes at very low prices or even free. For instance, from elementary school to college education, all my parents had to pay were food and clothes. The university even paid for the textbooks I used. A bus ticket cost between 5 and 20 fengs (2 to 6 cents). A pound of corn flour was for about 4 cents and rice for about 5 cents. On the other hand, to suppress consumption beyond subsistent needs, the prices of many non-subsistent goods, such as watches, bikes, and radios were

artificially set very high. Very few people could afford these goods. As I remember, a 9" black and white TV set was about 300 yuans in 1975 in Shanghai City, a whole month income for the highest salaried people. A domestic made watch might cost 120 yuans and a bike 120 yuans before 1978, usually the four months' income of an ordinary worker. For ordinary people, it was not unusual that the whole family had to save for a whole year to buy a piece of expensive good. In 1969, I stayed with my eldest aunt in Shanghai City. One of her neighbors was a family consisted of a couple and four children. Every month, the wife saved 4 yuans and the husband 6 yuans. Then twelve months later, they bought an electric meter and installed it in their one-room apartment. That enabled them to save on electricity cost because now they only need to pay the electricity they used rather than share the bill of the whole building.

In rural areas, the income situation was even worse. On one hand, the income potential of grain production is weak to begin with. In his study on one of the richest agricultural areas in China, the Yangtze Delta area, Fei's findings (1957) showed that grain production could only meet the demand for food consumption. Peasants had to rely on subsidiary activities for dispensable incomes, such as raising silk worm and transportation in slow seasons. Fei attributed the weak income potential to the facts of too many people and too little arable land (Average 2 mus (one third of an acre) per person at the village where he conducted his research). Another reason for the weak income potential of agriculture was the practice of "price scissors" (Min & Li, 1988; Yu & Huang, 1990; Tao, 1988). It refers to the practice of low purchasing price of agricultural products by the government and high supply price for industrial products used in

agriculture. Those factors caused that the profit margin of agricultural production was very narrow. Peasants could hardly increase their incomes through improving grain output. A common phenomenon in rural areas was called "Gaochan Qunxiang" or "Gaochan Qundui" (Tao, 1988). It describes a situation that a village or a xiang might have excellent grain yield but the peasants were poor because of the weak income potential of grain crops and the practice of exclusively focusing on grain production by the government. In some cases, when grain output increased, the cash income of peasants even fell because of the "price scissors" (Leeming, 1985). It would not be hard to image that in areas of poor grain output, the situation should be worse.

The other factor affecting peasants incomes was a series of government policy and action that restricted or even prohibited sideline productions. Those actions were primarily driven by ideological concerns. As discussed previously, sideline production by individuals was regarded as the breeding ground for capitalism (e.g., Fei, 1957). The decline in sideline productions caused stagnation or even decrease in peasants income though the performance in agriculture improved significantly. For instance, Fei found that the average rice output per mu at the village of his research increased from 350 jin of his first visit in 1936 to 559 jin when he visited it the second time in 1957. However, because of the decrease in subsidiary production, the peasants' income showed no real increase. The effort to suppress sideline production reached the peak during the cultural revolution. In many areas, peasants were even not allowed to raise chicken.

Most rural people, except government officials and those who worked in state enterprises, were not covered by the welfare and rationing systems. This fact had negative

impacts on rural people's incomes too. Since peasants were not able to enjoy the service and goods subsidized by the government, apparently their real income was further reduced compared with those who were covered by the state welfare and rationing systems. Thus before the economic reform, the amount of dispensable income of peasants was negligible. In 1978, the average per capita annual net income in rural area was 134 yuans (\$45). On the other hand, the average annual expenditure of food, housing, and clothing was 106 yuans (\$35) (Chinese statistical yearbook, 1994). Thus, only 28 yuans (\$9) was left to cover other expenses in a whole year. Obviously, peasants hardly had any savings after the subsistent needs were met. In areas of poor agricultural performance, even the subsistence needs could not be met. At such a low income level, every penny means a great deal to rural people. I remember a story told by my mother. She stayed at a hot-spring treatment center in Wushang of Gansu Province in late 1960s. One day, my mother saw a rural woman who was so desperate because she could not find two yuans (about 7 cents) saved from selling eggs. Finally people around helped her found the money inside the fold of her sleeve. Then she was so happy for that was all the cash she had. The magnitude and dramatic change of her emotional state showed how important this tiny amount of money meant to her.

b. The psychological pressure to deter people from non-subsistent consumption.

Besides the various income constraints, there were also psychological factors that prevented people from non-subsistent consumption. First, the CPC formed a mentality of refrain from consumption through its experiences during the war time. For the CCP

always struggled under extremely difficult material conditions in its revolutionary effort. To assure the supplies to its war effort, cutting individual consumption was a constantly resorted approach. In some base areas, when situations became extremely difficult, the monthly expense money of the Red Army's officers and soldiers was completely cut. Sometimes, the cut even affected food supply (Rong, 1987). For instance, in the Wanjiang base in 1942, the supply of uniform was cut in half, from two sets a year to one (Chen, 1987:305). The practice of consumption reduction touched everyone in the revolution camp, from the highest ranking officials to foot soldiers. A popular saying summarizes the situation vividly: "From group commander to foot soldiers, everyone only allows 5 cents expense money each day." The mentality of sacrificing individual consumption for a greater cause continued after the CCP won the revolution. Practically, it is because the government had a very ambitious goal of economic development but the materials base of the nation was very weak. To concentrate resources on development, naturally, this mentality would lead to the strategy of cutting consumption, as it successfully did during the war time.

Second, in sharp contrast with the rampant corruption of its enemies in the nationalist camp, the CCP was known for simple and frugal life style during the war. This reputation was an important source of strength that enabled the CCP to rally people together in its revolutionary effort. Consequently, simple and frugal life style became a symbolic feature of revolutionist. As Mao put it: "Having enough to eat is the sufficient life standard for (the members of) a revolutionary party. As long as one has enough food to eat, he should do the revolutionary work." (1957b). A common theme in many Party

officials' biography that published recently was to show how simple and frugal their life styles were. Many high rank officials required their children to live simple and frugal lives as well (He & Gao, 1995). Furthermore, almost all the role models promoted by the CCP shared a common character of refrain from material consumption. For instance, the most famous role model, Leifeng, was a platoon commander in People's Liberation Army. As a smart and educated youth, he would naturally want some nice clothes. In one story, he bought himself a pair of new trouser and a pair of new leather shoes. Then he reminded himself that as a revolutionist, he should always live a simple life. Thus he decided to put the new trouser and shoe at the bottom of his suitcase and never touched them again until he died at age of 21. Another famous person, Chen Yonggui, who was the key figure in the Dazhai model, maintained a simple life style even after he became a vice premier of the nation. A story tells that he did not allow his chef to buy a hen when he invited several other vice premiers to have dinner at his home. They just ate noodle soup without any meat (Wu, 1993). As a matter of fact, to live a simple and frugal life was a default to become a role model at that time.

Third, to maintain a simple and frugal life style also has political implications. It was regarded as an important approach to assure that the victory of revolution would not be lost. When the CCP was approaching to military victory over its enemy, Mao was alerted by the potential danger that the revolution could still fail if people's revolution spirits were corrupted by indulging in material comfort. He warned people that though the enemy was defeated militarily, they might fight back using "sugar coated canon ball" in peace time (Mao, 1949b). It means that the enemies would draw revolutionists into their

camp by the lure of exploiting class life style. Or in other words, if one pursues a life style of material consumption, he is very likely on the way to be allied with the enemy. Consequently, the revolution may change color and the mission of the CCP could fail. In order to avoid this danger, Mao repeatedly called on the Party to maintain a simple and frugal life style (e.g., 1949; 1957). This emphasis was particularly manifested in a famous role model that the CCP promoted. On Feb. 25, 1963, the ministry of defense named a military unit as "The Good Eighth Company on Nanjing Road." After the liberation of 1949, this company was stationed in the busiest commercial district of Shanghai, the largest city in China. This district in China can be analogous to The Fifth Avenue of New York City in the US. It was a showcase of capitalist life style. The company became a role model because it successfully resisted the lure of dazzling material environment and maintained a simple and frugal life style. For instance, the soldiers performed their patrolling duty in uniforms with patches on. They grew vegetable for their own consumption rather than bought from stores. Mao even wrote a popular poem to praise this company (1963).

Finally, for those who could afford a better living condition, the political pressure associated with comfortable material lives was an effective factor to prevent them from consumption. For consumption beyond the subsistence need was considered as a life style of capitalists or exploiting classes. In every major political movement, to live a capitalist life style was always a good weapon to attack someone who was picked out as a target. The rationale was that for the members of exploiting classes, they could afford to live a lavish life style because they exploited other people; and for those within the revolution

camp, it was a sign that they would give up their ideas and submit themselves to the enemy's camp. In either case, there was a real threat associated with material consumption beyond subsistence level.

c. The quiet surface and stormy undercurrent

Because of low income level, high price for durable consumer goods, and the psychological pressures, the demand of consumption was kept at minimum in the markets. There were numerous evidences that the government felt little pressure to take actions and satisfy people's desires for consumer goods. For instance, when the economic reform started in 1978, people had not seen any increase in their salaries for about twenty years. My parents' salaries were set in 1960. Since then, the first time when they had raises was twenty-four years later in 1984. Because the power to decide people's salary was at the central government, my parents' situations resembled that of everyone else in China. Another evidence is that the number of new housing projects was negligible before the 1978, given the size of population. Severe shortage of residential housing was rampant. Many young people could not get married because they had no place to form a family. In 1978, the per capita living space in urban areas was only about 40 sq. ft. (China statistical yearbook, 1994). After economic reform, the government made massive efforts to improve the housing situation. That effort was called as "Paying back the old debt caused by the previous negligence." Because the negligence had lasted for too long, it could not be remedied in a short period. Not until 1992, 14 years later, the number of per capita living space doubled the 1978 figure to about 80 sq. ft. Now, the problem of

housing shortage is still far from being completely solved. That for more than twenty years people's salary had been frozen and little had been done to improve the housing condition suggests that the government successfully neutralized the demand for consumption before the economic reform.

However, that a need is neutralized does not mean that it would disappear. On contrary, it is often true that the longer a need remains unsatisfied, the stronger its expression would be once opportunities are available. Even before the economic reform, there were many signs of a strong undercurrent of people's desires for consumer goods. The "back door" (Zouhoumen) phenomenon is well known in China. It refers to the practice that people use their connections to obtain some benefits that are hard to get through legitimate channels. Before early 80s, to obtain various basic consumer goods was a very important part of "backdoor" phenomenon, such as food, cloth, watch, bike, etc. People had to go through "backdoor" because these goods were either hard to be found in the stores or required some special privilege to get. For instance, bikes used to be the rationed consumer goods. In order to buy a bike, one needed to have a special coupon. Normally, a medium size government organization, say with five hundred employees, could get three or four coupons a year through official channels. The chance that one could get such a coupon depended on how strong one's connection to some key persons or one's position in the organization. If one could not get a coupon through the official channel, there were other ways. For instance, when the author was a high school students in shanghai in 1974, a classmate's father was an ordinary worker in a famous bike factory. He managed to get enough parts through his connections and assembled a

bike himself. The project took several months to complete. Then my classmate was very proud that his family possessed a brand-name bike. The amount of efforts that his father made and the magnitude of my classmate's emotional expression showed their strong desires for a brand-name bike.

One obvious explanation of "backdoor" phenomenon was that people wanted to buy those goods. Without such a demand, there would be no base for it to exist. It was so rampant that the Party even listed the practice as unlawful in a policy document (cited in Yu & Huang, 1991). The "backdoor" phenomenon should be viewed as a popular strategy that people satisfy their demands for consumer goods, under the circumstance that the legitimate channels were not effective. The author had several personal experiences in this regard. For instance, to possess a camera had been a dream since I was very young. In 1982, I saved enough money and decided to buy one. However, the supply was so tight. I could not find the model I wanted in any store because almost all cameras were sold through the "backdoor." Finally, I had to ask my friend and he had a friend who was the manager of a major department store. Then I got a camera. At present, no one needs to go through the "backdoor" to get a camera or a bike for they are plenty in the stores.

Another popular phenomenon that demonstrated the strong demand for consumer goods was people's enthusiasm for various trade fairs (Shangping Zhangxiaohui) in the later 1970s and early 1980s, where manufactures exhibited and sold their products directly to the customers. For ordinary people, they were mostly interested in trade fairs for basic goods, such as food, clothes, and durable consumer goods. What offered at trade fair normally were either hardly seen in stores or cheaper. Tickets to those trade fairs were

hot items for "back door" activities. People were so enthusiastic for going to trade fair at that time. Almost every fair could draw a huge crowd. While in the crowd, one could easily sense that the environment was filled with excitement. It was a mood similar to a situation when an animal sensed a prey to catch. This phenomenon no longer exists now. No trade fair can have dramatic impacts on people's emotion. These social phenomena suggest that the desire for consumer goods among ordinary people be very strong, though it had been neutralized at the surface for a very long period.

d. A hungry dragon waked up: The demand for consumption came to the surface.

Shortly after the economic reform started, people's long suppressed desire for consumption started to put growing pressure on the markets because the above mentioned constraints were quickly removed and opportunities were opened as the CCP changed its policy priority from class struggle to economic development. Obviously, suppressing consumption would have negative consequences because it was a critical link in the production circle. Guided by the new policy priority, improving people's livelihood became an important agenda of development (Dong, 1992). Under the new development strategy, accumulation was balanced by consumption. The practices of restricting people's income and artificially set high price for consumer goods were gradually phased out. Furthermore, the shift of policy priority released negative political implications attached to consumption and so did the psychological pressures associated that prevented people from consumption. For instance, to be rich was no longer a sin. Instead, it is something people should be proud of. Deng Xiaoping said: "In terms of economic policy, I think we

should allow that some areas, some enterprises, some workers and peasants to have higher income and enjoy better living conditions because of hard work and good performance." (1978). Reflecting the change of the political climate, "Xiang Qiankan (go after money)" became a popular saying in Chinese society in 1980s. A colorful material life was no longer considered as capitalist life style and a threat to the Party.

In addition to the improved political climate, a critical factor that contributed to the growing pressure of demand for consumption was that people's incomes increased substantially. The income growth in rural areas was particularly impressive. On one hand, a series policy adjustments released the enthusiasm of rural people and the production increased significantly. Compared with the period of 1957-1978, between 1978-1984, the average annual growth of grain products increased from 2.1% to 4.9%, cotton from 1.3% to 18.7%, and oil crops from 1.0% to 14.6% (Kong, 1993). On the other hand, the government raised purchase prices of agricultural products. Between 1978-1984, the purchase price of agricultural products increased 50-100%. As result, per capita income in rural areas increased from 133.6 in 1978 Yuan to 397.6 Yuan in 1985. (Chinese Statistics Yearbook, 1994). The bank deposit by rural people increased from 5.57 billion Yuan in 1978 to 56.48 billion Yuan in 1985. Although the income level in urban areas was growing as well, the income gap between rural and urban areas decreased steadily. Between 1983 and 1985, when the explosive growth of rural enterprises started, the income gap between rural and urban residents was the smallest since 1978 (Research group of Chinese statistics Bureau, 1995). Therefore, with the favorite political environment, money in hand, and people's strong desires for consumption, all critical

conditions were met for the huge demand pressure coming to the surface and waiting to be satisfied.

The demand situation of Chinese market in the early 1980s showed two unique features. First, in terms of purchasing power, each individual in Chinese society contributed fairly equally to the demand pressure. As discussed previously, China was an equal society at the time when the economic reform started. The term equal has both political and economic implications. Economically, the income gap was nominal (Dong, 1992) hence the economic power for consumption was evenly distributed among individuals. At the early period of reform, the situation did not change much because the income growth did not widen the income gap significantly. It is a situation that if you can afford it, I can afford it too. Second, although people's income increased substantially, it was still at a low level because the level to start with was very low. In 1984, the workers' average annual salary was 974 Yuan (\$300), a one-third increase from 615 Yuan in 1978. In rural areas, the per capita annual net income was 398 Yuan in 1985, a near threefold increase from 134 Yuan in 1978 (China Statistics Yearbook, 1994). These are substantial increases but far below the level required for expensive consumer goods. Given the narrow income gap in the society, it means that most people's demands for consumer goods were limited to cheap goods. Though they also wanted luxury goods, their incomes would not allow them to do so. At the early period of reform, I frequently heard the reform elites to complain about the undifferentiated demands in Chinese market. It is a situation that if one product was demanded and could be afforded by one person, then so did everyone else. Because China is the most populous nation in the world, it meant that

the industrial sector was under enormous pressures to produce huge quantity of few popular products in a very short period. Given the capacity of existing industrial infrastructure, which was primarily state owned at that time, that was an impossible task.

These two features suggested that the demand be huge but limited to cheap consumer goods at that time. To satisfy such a demand, quantity and price were the primary concerns. Quality was less important. Several entrepreneurs in Jinjiang City told me that the products they made at the early time of their businesses, around the mid 1980s, were low quality but they had no problem to sell because the price was cheap. One entrepreneur said that jeans he made were so tight that could not anyone of a little bigger size. The main reason to do so was to save materials and sell the products at very low price. Another entrepreneur sold cloth materials to other entrepreneurs that often had quite a few holes. Other entrepreneurs bought his materials because of the low price that enabled them to sell their products cheap. The situation was still true to a limited extent in 1994 when I did my field research in China. For instance, in Beijing suburb, there was a famous Baigou market where cheap and low quality goods were sold. In my discussion with a deputy director of the rural enterprise bureau of Tong County, Beijing, he agreed that the products sold at the Baigou market were low qualities. For instance, a mother bought a bag for her school age child. Several days later, the buttons on the bag might all fall off. The mother had to sew them on. However, he commented that those goods were what people could afford. The goods in luxury stores were high quality and nice looking but most people could not afford. He gave me another example on this topic. Since rural reform, there was a construction boom in rural areas. In 1978, the floor space of

completed new houses was 100 million square meters. In 1980, the figure became 500 million square meters. From 1983 to 1993, in most years, the figure was above 700 million square meters (Chinese Statistics Yearbook, 1994). Those numbers suggested that building materials were in extremely high demand. One item would be the steel-made window frame. The deputy director told me that the window frames sold in the Baigou market were low quality indeed. For instance, four edges often were not aligned properly; the steel surface was not properly processed; and painting usually was very rough. Nonetheless, they were still in high demand because the price was cheap. There were high quality products as well but few could afford.

Entering the 1990s, several luxury department stores appeared in Beijing with the participation of foreign capitals. One was Saite Department Store which was joined with Japanese capital and located by Jancuomen. Another was Yansha Department Store joined with German capital and located near the end of the airport highway. These two were the most famous at that time. They were famous because of the high price tag of their goods. Most people visited those stores primarily for eye shopping rather than actually buying. Because China did not have a high income population that was large enough to form a market of luxury consumption, their high price strategy could not sustain their businesses. Consequently, they had to change the initial strategy and started to serve lower income populations. When I visited those stores, they already displayed many goods at the similar price of other lower-end department stores. For instance, my wife bought a skirt at Saite for 260 yuans. That price was even cheaper than other medium price range department stores for the products of similar quality and style.

Because China was the most populous nation in the world and everyone contributed to the pressure, obviously, the collective purchasing power was formidable. On the other hand, the low income level determined that the individual purchasing power was weak and people could only afford cheap products. Consequently, the demands were concentrated on a narrow range of consumer goods. Such a concentrated demand further aggravated the magnitude of demand pressure. Just imagining what a situation would look like if each of one billion people wants to buy a cheap watch. The magnitude of demand was further enhanced by the fact the people were so eager to enjoy the opportunities for consumption after decades of suppression. It resembled a situation that if one had been deprived food for a long time, his/her demand for food could be much higher than what was required to satisfy his/her biological need. All these factors helped to form a market with a horrifying huge capacity to absorb cheap consumer goods that only a magic power could handle.

e. Other demands

Besides the demands for consumer goods, there were also other market opportunities. One of them was the need to export (Yu & Huang, 1991). As China adopted the open-door policy in the economic reform, earning foreign currency was a major concern because of the need to introduce advanced technology to modernize the nation's economy. In order to balance the trade, great effort was made to promote export. For instance, the Guangzhou Trade Fair held in the spring and fall of each year used to be the only export oriented trade fair in China. After economic reform, the export oriented

trade fairs increased remarkably. Many areas in China organized their own trade fairs. Some even went abroad. The amount of foreign currency earned was a very important indicator to judge the performance of an enterprise by the government.

On the other hand, the experiences of four little dragons of Asia (Singapore, Hong Kong, Taiwan, and South Korea) suggested that export oriented labor intensive industry was an effective mean for capital accumulation at the early stage of economic development. Many scholars at the early 1980s proposed that China should follow the example of the four little dragons to develop the export oriented labor intensive industry. This concern further enhanced the demand of exportation. And finally, the complex links between overseas Chinese and their homeland also provide the initial channel for non-government organized exportation. At the early stage of economic reform, many overseas Chinese came back to China to look for business opportunities. That in turn created export demand and opportunities.

Another market opportunity was to serve the expansion need of state enterprises (Yu Huang, 1991; Tao, 1988). There were many state enterprises that their products were popular in the markets. Due to various reasons, it was hard to expand by relying on their own. For instance, many state enterprises were located in urban areas. It was very difficult for them to build new facilities because land was scarce. They often could not get enough capital for expansion because it was too expensive to do so in urban areas. An important feature of the economic reform was to decentralize the economic power. Deng indicated: "The most eminent task now is to expand the autonomy of enterprises and production teams so that every factory and production team can maximally display its initiative and

creativity" (1978:7). As result, the importance of central planning decreased and individual enterprises had more freedom in business operation. This adjustment created opportunities for state enterprises to look for the assistance from sources other than the official channels to make up their weaknesses. As we know now, to serve this demand was an important reason for the rapid development of rural enterprises. The term "horizontal cooperation" described this phenomenon. Among the three research sites, Wujiang City had many companies that cooperated with state enterprises.

Supply situations.

Although the demands in the markets were very strong, the supply situation was not optimistic at all when the reform started in 1978. There was a huge gap between the two. On one hand, the capacity of existing industry could only meet a small portion of the huge demand. On the other hand, the imaginable growth rate of production suggested that the huge gap between demand and supply would exist in foreseeable future. For instance, the annual output of bikes in 1978 was 8.5 million, roughly one bike per 118 Chinese. Given that a bike was the most important mean of transportation at that time, this output obviously was far from appropriate. The annual output of watches in 1978 was 14.1 million or in other words, one watch per 72 Chinese. The output of some now very common consumer goods were negligible in 1978, such as TV sets (0.5 million), electric fans (1.4 million), and tape recorders (0.05 million). For ordinary Chinese, household refrigerator and washing machines were alien concepts and the productions were almost nonexistence in 1978 (0.03 million and 0.0004 million respectively) (China Statistics

Yearbook, 1994). Since China was a poor country with one billion people at that time, by conventional thinking, there would be a long way to go for the production to be raised to an optimal level and meet the demands, if that would ever happen.

As the inseparable twin that characterize market conditions in any society, the analysis on the demand situation actually explains the supply situation too. From a historical perspective, the supply shortage was an accumulated problem as well as the demand pressure. It was the result of the socialist development strategy that favored heavy industry over the light industry and service industry, and grain production over other cash crops. Reflecting this bias, the investment strategy was clearly tilted toward heavy industry, as Table 5.1 shows.

Consequently, this investment strategy caused severe underdevelopment in light and service industries and non-grain agricultural production that in turn led to severe shortage of consumer goods and non-grain agricultural products, such as vegetable, poultry, and domestic fishes. On the other hand, the narrowly focused strategy on grain production did not produce significant improvement even in grain supply. Between 1957 and 1978, the average growth rate of grain output was 2.1% (Kong, 1993) that barely matched the growth rate of population. The per capita grain output was 306 kg in 1957 and 319 kg in 1978, an increase of only 13 kg (29 pounds) in twenty-one years (China Statistics Yearbook, 1994). The most noticeable evidence of supply shortage was the ration system that once dominated every urban Chinese life until mid-1980s. Beside frequently mentioned grain products and cloth, almost everything could be covered by the system because the shortage happened in all areas. I still remember the monthly rations

per person of several products when I was a child and lived in Lanzhou City, the capital of Gansu Province. For instance, each person allowed half jin of pork and egg (a little more than half pound), half jin cooking oil, half bar of soap, 50 jin of coal for cooking and heating, and half jin of bean curd. For sugar, the ration was one jin per family. For a short period, even matches were rationed, two tiny boxes (about 100 matches per box) per family per month. Light bulbs were once rationed as well. In Lanzhou City, during winter seasons, most families used coal stoves to heat their homes. So chimney made from iron sheet was a necessity and therefore rationed, four pieces per family per year. Also chimney was only available in stores shortly before the winter came. People had to wait in long lines to buy their rations. I remember that it often happened one store sold out all its chimney stock. Then my father and I had to go to another store and waited in a long line again. In fact, four pieces of chimney were not enough so that people had to save the chimneys used in the previous years. The new chimney was mainly for the replacement of old chimneys that was too rusty to be used.

The severity of supply shortage was also manifested in the rigidity of rationing system. One's ration of various goods was tied with his/her resident status of a specific city. Without a legal resident status, one could not buy the rationed goods in a city for he/she did not have the coupons that were only issued to the legal residents of that city. One plausible explanation for this practice is because after meeting the demand of rationing system, little was left to allow any flexibility within the system. During the mid 1970s, I accompanied my mother to Shanghai City for medical treatments. Since we were the legal residents of Lanzhou City but not Shanghai City, we could not buy any rationed

goods there, such as meat, egg, bean curd, sugar, and cloth. My relatives and my mother's friends had to save from their own rations to help us. Some consumer goods were rationed but out of the reach of majority people. For instance, bikes were rationed but few could get one because the supply was so scarce. There were many other consumer goods were rationed implicitly because they could only be obtained through personal connection. For instance, basketball shoes were very popular among students when I attended high school in shanghai in the mid 1970s. However, one could hardly see any shoes in stores. The main channel to get a pair of shoes was through "back door." Several of my friends got their shoes but I could not because I did not have the connection.

The widespread "back door" phenomenon not only explains a strong demand but also a supply shortage. Naturally, if supply was abundant, there was no need to buy things through "back door." Nowadays, it would be a laughing matter if one needed connections to buy a pair of shoes or a bike for they are plenty in stores. This phenomenon was largely caused by shortage. People's enthusiasm to various trade fairs discussed in the previous section was also the evidence of supply shortage.

In the rural areas, the supply situation was worse. For the productions of consumer goods were even not enough to meet the limited demand by the rationing system in the urban areas. Little could be left for distribution in the rural areas. On the other hand, to assure the supply of basic consumer goods to rural areas seemed never be a government agenda because no effort was ever made to establish a rationing system for that purpose, as what happened in the urban areas. Rural people were primarily left on their own to

solve various supply problems. For instance, one official purpose to develop rural enterprise was to serve the livelihood of rural people (Wu, 1993).

Although the supply situation was very pessimistic before the economic reform, it did not become a real pressure on the government to take actions and improve the situation. As the discussion of the previous section showed, the government strategies to deal with the problem was to neutralize it by restricting people's income, setting high price for non-subsistence consumer good, and building up psychological pressure to deter the consumption. Or in other words, the government avoided the pressure of providing enough supply to the markets by caging the demand.

Then the situation was changed completely after the economic reform. With economic development becoming the policy priority, all restrictions on consumption, both physical and psychological, were quickly removed. People were encouraged to be rich and live a better life. To promote production in various sections also activated all sorts of previously not so obvious demands, for instance, exporting for foreign exchanges and serving the expansion need of state enterprises. While the monstrous demands were set free, to produce enough goods and maintain sufficient supply in the markets became a real challenge to the nation's economy. Suppression or intentionally neglect would no longer work under the new circumstance as long as the government would not go back to the previous policy priority. There was no other way to solve the supply problem but to improve production substantially.

In summary, the market conditions under which Chinese rural enterprises developed were characterized by the huge gap between the supply and demand in many

aspects. Though the supply shortage caused many difficulties in people's lives and the nation's economy, it generated enormous market opportunities too. Some researchers indicated that shortage as the reason for initial development (Zhou, 1996; Byrd & Zhu, 1990). Nevertheless, to take advantage of the shortage situation was not the exclusive privilege of rural enterprises. Other potential players might benefit as well. Then several interesting questions can be raised. Given the market conditions, what were the performances of other major players? What accounted for the differences in performance among those players? Why could rural enterprises be so successful? The following discussion will be devoted to those questions.

2. Major potential players on the market.

Production in the agricultural sector: Chinese peasants as the sole player and cheered heroes.

The significant improvement of the supply situation happened first in agriculture, thanks to the effort of Chinese peasants. Triggered by a series of rural reform policy, they demonstrated enormous enthusiasm in agricultural production. By successfully feeding the nation of one billion people, Chinese peasants wrote the first glorious chapter in the reform process through their hard work. Table 5.2 summarize the changes of per capita output of major agricultural products between 1978 and 1984.

As a profound evidence of the improvement in agricultural production, shortly after the reform started, people suddenly realized that all sorts of food rationing coupons

were not important anymore. They were no longer required to pay their food with grain coupons (Lianpiao) in many stores, in addition to their money. Grain products were in abundance in the free markets and so did meat, eggs, poultry, fish, and vegetable. Grain coupons used to be an effective mean to control the movement of population and that function ceased naturally after the supply situation of agricultural products improved significantly. Now, as long as one had money, it would not be a problem to get food anywhere in China. The improvement in agricultural production was so substantial that around the mid-1980s, the food rationing system was completely phased out.

The quick improvement in agricultural production had an important implication to the market conditions. When people were primarily occupied by the concerns for food, naturally, the demands for other goods would be pushed to a secondary position. That people's needs for food were largely met suggested that the demands for non-agricultural products became much more salient. Thus, a much greater pressure would be put on the non-agricultural sector of the economy to improve the supply situation. A last word, though sounds redundant, it is worthwhile to indicate that the demand and supply problems of agricultural products were solved within the sector by Chinese peasants. No outside players involved.

Production in the non-agricultural sectors: Chinese peasants as cheered heroes, again.

Unlike the production in the agricultural sector where Chinese peasants were the sole players, theoretically, several potential players could take the advantages of market opportunities for non-agricultural products, for instance, state enterprises, foreign

companies, and urban non-state enterprises. Nonetheless, the fact is that none of them has benefited from the enormous market opportunities to the degree that can remotely parallel with the success of Chinese rural enterprises. The following discussion will explain the phenomenon through the strengths and weaknesses of each player under the given market conditions.

a. Chinese rural enterprises: the star player.

The first player under such market conditions, as we all know now, is Chinese rural enterprises. This fact was not so obvious in early 80s. Actually, rural enterprises might be the least possible sources for improving the supply situation of non-agricultural products. Almost no one, including rural people themselves, thought of rural enterprises as a serious contender. For instance, the government always insisted on the supplemental nature of rural enterprises to the nation's economy and maintained that claim even after the production in this section became critical in the nation's economy. Their successes surprised everyone indeed.

To be fair, that people overlooked the importance of rural enterprises was not because they were ignorant. There were just many legitimate reasons that were too obvious to be missed by anyone to reach the conclusion: Rural enterprises could not be serious contenders. To begin with, it is simply not the specialty and responsibility of peasants to produce non-agricultural products in a modern society. Secondly, compared with state enterprises, rural enterprises lacked almost everything, capital, technology, experiences, marketing channels, channels to obtain supply, skilled labor force,

transportation facility, and government support. Without those basic material conditions, it was very hard to vision that rural enterprises could grow up and became a major contender in the markets. When I did my field study in China in 1994, the success of rural enterprises had been a known fact for many years. However, having witnessed many primitive enterprises, I just could not stop wondering how rural enterprises managed to grow that big.

In Jinjiang City, I saw many companies of very poor conditions. The production sites were tiny, crowded, dark, dusty, and dirty. People used all sorts of buildings as production site. In many cases, they were just patched shanties. Many companies still used very primitive equipment. Along the major roads, there were many primitive kilns producing ceramic building products. The technology of those kilns was more than one thousand years old. As a city resident, my impression of industrial production was formed through my experience with various state enterprises. They all had huge buildings and many advanced machines. When I was in those huge factories, they gave people a feeling of power. Those primitive workshops in Jinjiang City looked so weak, so vulnerable, and so trivial. If there were no hard statistical results to keep me conscious, it was really hard for me to link those companies with the important role that rural enterprises played in the nation's economy. The rural enterprises in Jinjiang City were highly developed in China. Many companies were well established when I visited them. They had modern and powerful looking that resembled my experiences with the state enterprises. Nonetheless, only seven or eight years ago, those well-established companies looked exactly like the primitive workshops just mentioned. For their initial production sites were still there. I

visited several of them. There is a story that depicts the primitive conditions of Jinjiang rural enterprises in the early stage. A Hong Kong businessman was impressed by the personal characteristics of an Jinjiang entrepreneur and would like to cooperate with him. Then he visited the production site in 1987. Having seen the production facility first hand, he told the entrepreneur: "If I saw your production site first, we would have no deal." (Wang, 1992).

In Wujiang City, I was primarily exposed to well-established companies. Those companies had very powerful and modern looking but they all went through the primitive stage that was no difference from those primitive workshops in Jinjiang City. At the meantime, I still managed to collect some direct evidence about the existence of primitive and small companies. For instance, one of my relatives there told me that he planned to open a garment factory at home. His ideas were to buy several sewing machines and hire four or five workers. The would-be production site was several vacant rooms in his house. In Tongliang County, the development of rural enterprises was lagged far behind, compared with other two research sites. It was a situation resembling those of about ten years ago in Jinjiang and Wujiang Cities. The companies I visited there were primarily small and primitive ones. For instance, a shampoo factory had only two small rooms with several plastic containers inside. The entrepreneur showed me the production process. It was to manually mix materials in those containers to produce hand soap and shampoo. Another company was a metal processing factory that had a large canopy in a muddy field. When I visited, the entrepreneur was very warm and invited me to sit on the only

armchair in the office. Though very impolite, I decided not to sit. For I was quite sure that my 180-pound weight could crush that armchair easily.

Finally, the difficulties in perceiving the development potential and decisive importance of rural enterprises were not limited to those poor physical conditions. Although the companies of the Western nations are sophisticated in many aspects now, at the initial stage of industrialization, they were all very primitive as well, just like that of every Chinese rural enterprise. Being primitive alone is not the sufficient evidence of no development potential. However, in the West, the process of industrialization started from the ground zero. There was no other well-established modern industry to compete for market share. The situation in China was different. When the economic reform started in 1978, a modern and comprehensive industrial section had been well formed in the China (Han, 1993; White, 1988), which exclusively consisted of state-owned enterprises. Given the sharp contrast between the primitiveness of rural enterprises and the technical sophistication of existing industrial sector, no one would hesitate to conclude that rural enterprises could not possibly compete against state enterprises and become an important supplier of industrial products. The situation was similar to that of the CCP before it won the power. When the civil war broke out in 1946, few would believe that about one million badly equipped and overwhelmingly outnumbered Red Army could defeat the four million strong nationalist army. The later was much more superior in terms of advanced weapons, the number of soldiers, the size of territory controlled, and the economic strength. It was also backed by the US, the number one world power.

Nevertheless, as the result of Chinese civil war, the nationalists were driven to the tiny island of Taiwan and the CCP won the power of China.

Similar to the drama of Chinese civil war, though rural enterprises were inferior in many aspects to state enterprises, they formed the most successful section in taking the advantage of market opportunities. Facing the fact, there must be something other than those weaknesses that explained the success. The following discussion will focus on the structural characteristics of rural enterprises. The issue of people quality will be left for the later chapters.

Compared with the state enterprises, Chinese rural enterprises do have several unique structural characteristics that gave them competitive advantages under the given market conditions. The most important one is that they were highly responsive and extremely sensitive to market opportunities because the survival and growth of a company was completely determined by its performance in the market. The operation of rural enterprises was primarily driven by the market demands. For rural enterprises, all necessary resources were primarily obtained through market channels rather than through state planning so did the marketing of their products. This situation is in fact imposed upon rural enterprises to some extent because the government would not cover this sector through its planning web. When the state planning played a dominant role in the nation's economy, to be left outside the web was considered as an insurmountable deficiency for the development of rural enterprises. For they would be denied access to various resources. At the early stage of development, many rural enterprises, particularly collective enterprises, tried very hard to be included in state planning as a strategy for

survive and development. A few companies, primarily collective enterprises, accomplished so (Tao, 1988). For instance, in Wujiang City, the productions of many companies were partially covered by the state planning until 1995 when I visited place. Several entrepreneurs told me that the state planning would be completely phased out in 1996 and they really missed it because it made business operations much easier. However, most rural enterprises had to rely on the market to get what they needed and sell what they produced.

Through my discussion with many rural entrepreneurs, I found that when they started their business, all they knew was some knowledge that the products they tried to produce could be sold in the markets. Most of them did not have clear ideas about how to produce the intended products. They acted in terms of what was wanted by the markets rather than what they could do at the moment. When I visited Jinjiang City in 1994, the Gulf war between Iraq and the US still left vivid memory in people's minds. The psychological effect generated by the Scud missile was a hot topic for leisure talk. A popular joke using the Scud missile suggested that Jinjiang entrepreneurs' behavior was completely determined by market demands. The joke is, if someone wanted to buy a Scud missile from a Jinjiang entrepreneur, he would say "Sure, no problem" and accept the order without hesitation. He might have no idea what was a Scud missile and where to find a one. That did not bother him at all. The most important issue concerned him was that the market demanded for scud missile then it was an opportunity for him. Thus, his action was to have the business opportunity within his reach then try to pull all resources together to make something happen.

From a broad perspective, one example of rural enterprises' responsiveness to market opportunities was the regional difference in development strategy. For instance, the area around Shanghai City has the highest concentration of state enterprises in China. There are many business opportunities to serve the expansion need of state enterprises. The development of rural enterprises in this area (called Sunan Model) was to a large extent through cooperation with state enterprises, the strategy of Hengxian Lianghe (horizontal cooperation). As a part of Sunan Model, this strategy played an important role in Wujiang City as well. Many of its rural enterprises cooperated with the state enterprises.

The export oriented businesses were particularly clustered in the areas where the channels to international markets were convenient. In Gaungdong province, because Hong Kong served as a very effective link to international markets, the export oriented enterprises were particularly advanced. In the areas that were far from major industrial centers, to supply consumer goods to domestic markets became the main strategy of development. The typical cases are Jinjiang City of Fujiang Province and Wenzhou City of Zhejiang Province. These two areas are far from major industrial centers. Jinjiang rural enterprises made great contributions in providing domestic markets with fashionable shoes and clothes. Wenzhou's enterprises were famous in producing Xiao Shang Ping (little stuffs). For instance, the Qiaotou Markets in Wenzhou City is a button market that sells locally produced buttons to the clients all over the nation and the world.

Another structural characteristic that gave rural enterprises competitive advantages at the early stage of development was the capability of producing large

quantity of cheap consumer goods. As discussed previously, the markets at that time demanded large quantity of cheap consumer goods. Most consumer goods demanded by the markets at that time were low-tech, labor intensive, and not capital intensive, such as shoes, clothes, toys, small household utensils, and low end construction materials (brick, tile, and low grade cement). To start a business for those products did not require a large amount of capital and sophisticated technology. For instance, many shoe and garment companies were started with almost no capitals. The low entrance threshold, combined with the huge market capacity, allow many companies to enter the markets simultaneously. This was a critical condition that so many rural enterprises could be established in a very short period in responding to market opportunities. When I visited different townships of Jinjiang City, my impression was that shoe, garment, building material companies were everywhere. There were just so many of them.

Although individual rural enterprises were small at the initial stage, the collective power of this section to produce a large quantity of cheap consumer goods was phenomenal because they were greater in number. Also because they were small and in a great number, collectively, their productions could cover many foreseeable market niches. It was true that at the early period, the products of rural enterprises were very poor quality. Their products and poor quality were actually synonymous at that time. Nonetheless, this deficiency did not exert negative impact on the development of rural enterprises because the market tolerance for poor quality was strong at that time. While people complained about poor quality, they would buy the products of rural enterprises without any hesitation. After long time being deprived of consumer goods, people were



not so picky about the quality. They were satisfied by the mere freedom of buying something that was not available before. Also their incomes would not allow them to buy something that was high quality but expensive.

In terms of those structural characteristics, rural enterprises did enjoy some competitive advantages in the markets. However, these advantages can not fully explain the success in this section. Obviously there were many significant weaknesses as well. That the strengths of rural enterprises outweighed their weaknesses also lie in the other potential players' inability to take advantage of the market opportunities.

b. State enterprises.

State enterprises represent the well-established modern industrial section of Chinese economy. At the early 80s, most people would consider state enterprises as the most eligible to fulfill the market demands for various non-agricultural products. It is natural to think this way because that is the specialty and responsibility of the industrial section. The rural reform was so successful that the supply shortage of agricultural products was quickly relieved. Then it should be the turn of state enterprises to assume its responsibility to improve the supply situation of non-agricultural products. Also there were no other obvious contenders that could fulfill the market demand at that time. It left state owned enterprises as the only eligible player. Initially, people were generally optimistic that the agricultural miracle could be repeated in the industrial section. That belief proved not true because state enterprises did not live up to the expectation. The poor performance of state enterprises has been significantly dragging the progress of the

reform. Most of them have been operating in red. The government has to pump in a huge amount of financial resources to maintain the operation in this section. Though no statistics available, it should be reasonable to assume that a significant portion of wealth created by rural enterprises was used to help state enterprises. Or it would be very difficult for the government to keep injecting enormous financial subsidy into state enterprises.

If judged by physical strengths alone, state enterprises were superior to rural enterprises in almost all aspects in early 1980s. It is not exaggerated to say that no individual rural enterprise could compete with any state enterprise in terms of labor quality, technical sophistication, financial strength, marketing channels, supply channels, management experience, production knowledge, and government support. Compared with rural enterprises, however, there is a fatal deficiency of state enterprises: their operations were never driven by market demands. The managers of state enterprises were the administrative agents of government rather than business leaders (Shi, 1991). Their behavior was primarily guided by the requirements to fulfill the demands of state planning rather than responded to market conditions. Theoretically, the existence of an individual enterprise does not depend on whether its business operation can generate enough profit but on whether the higher level government agencies think it has the reasons to exist. Practically, the tradition is that once an enterprise has been set up, it stays there forever. Even if a state enterprise had to be resolved, the government was responsible for arranging employment for its employees. Under such a structural condition, market demands are simply irrelevant to the operation of state enterprises.

Consequently, while facing promising market opportunities, state enterprises were structurally incapable of responding. Because of this deficiency, as a whole section, state enterprises could not benefit from the enormous market opportunities released by the reform in early 80s.

There are many stories showing that state enterprises were insensitive to market opportunities. For instance, rural enterprises in Cizao Township of Jinjiang City were famous for producing ceramic building materials. In 1993, hundreds of such companies were operating in Cizao and its total output of ceramic tiles surpassed the sum of five leading producers in the nation, which were all state owned enterprises. But just a few years ago, at the early 1980s, Cizao's ceramic industry was actually very primitive and could only produce a few kinds of simple pottery utensils.

In one story, at the early 1980s, Cizao's sales people all knew that ceramic tile was in high demand. But no company in town knew how to produce it. Thus, one Cizao salesman went to a leading producer, a state enterprise, and try to do some business. That was his first time to be exposed to a modern production facility. He was shocked by what he saw. Compared with the operation of that state enterprise, what people did in Cizao Township was like the production of stone age. While impressed by the powerful appearance of that company, he also noticed that there were mountains of ceramic tile piled up in the storage. He was puzzled: How come this factory had so many products idle there while ceramic tiles were in high demand? At the end, he made a deal with the company to sell its unsold products. He even helped company to sell the products that failed to pass quality check. Then a little more than ten years later, Cizao's output of

ceramic tiles surpassed the sum of five leading producers in the nation while that state enterprise was still one of the five leading producers (Shi & Zi, 1992).

Another story was about a large state owned pharmaceutical company in Xian City of Shaanxi Province. It developed a new medicine that had very good market potential. Ironically, the previous management did not know how to market the new products. Their marketing strategy was to require the existing customers to buy old and new products together. Five years passed, the new product still did not find a place in the market. In 1991, a new manager was appointed. He used various market oriented strategies to promote the new medicine and produced very impressive outcomes. Just by the profits of that new product alone, the company ended its losing stream and became profitable in one year (People's Daily (overseas edition), 12/23/1997:2).

Though state enterprises enjoyed significant physical strengths, they collectively missed the market opportunities for rapid growth because they were insensitive to market opportunities. In early 1980s, after the rural reform achieved great success, the focus of reform process started to shift to the urban sector. Then people found that the insensitivity of state enterprises to market opportunities was an enormous challenge to move forward with the reform. The slow progress caused by this problem was very frustrating. Unlike what happened in rural areas where peasants were very enthusiastic in responding to the opportunities released by reform policies, the golden market opportunities had little impact on state enterprises. In fact, according to people who were close to the premier Zhao Ziyang, such a frustration was an important reason for CCP leadership to promote

rural enterprises. The goal was to introduce competition to stimulate the reform in state enterprises. Up to now, reform in state enterprises is still an issue of headache in China.

c. Non-state industrial enterprises in urban areas.

Given the success of rural enterprises, a natural question may be raised: does the development of urban non-state enterprises can be a viable choice to meet market demands? As a matter of fact, the government did take some policy initiatives to promote service industry in urban areas, for instance, restaurants, hotels, transportation, travel service, maid service, retail stores, and free markets for agricultural and non-agricultural products (Yu & Huang, 1990). Getihu (individual business household) is the generic term to describe those who engaged in various service businesses. But the reality is that few of Getihu in urban areas have developed production capabilities to supply non-agricultural products to the markets.

From a geographic perspective, there were certain advantages to develop urban non-state enterprises. Urban areas are close to many resources for non-agricultural production, such as technology, skilled labor, transportation facility, and the markets. Also by the tradition, urban areas are where non-agricultural products should be produced. Compared with rural enterprises, however, some crucial disadvantages hinder the development of non-state manufacturing enterprises in urban areas. Most important, it is very difficult to acquire land to build production facility in urban areas. In fact, the limited space in urban areas was a major reason for urban state enterprises to engage in horizontal cooperation with rural enterprises for expansion. Second, the productions of

most low-tech products are labor intensive and hard work. Urban people usually would not take these jobs. On the other hand, using rural labor could put a heavy burden on urban areas if this sector reaches a significant scale. The urban government would discourage the possibility of large scale rural to urban migration. For an important goal that the government favor the development of rural enterprises was to reduce the amount of rural-to-urban migration. Given the existence of rural-urban dualism structure of Chinese society, the large scale rural-to-urban migration was virtually impossible. These two restrictions alone could effectively prevent the significant development of urban non-state manufacturing enterprises. Thus, to develop urban non-state enterprises is not a practical approach to respond to market opportunities.

d. Foreign companies.

The last potential player to be discussed is foreign companies. Foreign capital from the societies of market economy is very responsive to market opportunities. Given the huge market demand and shortage of supply, they should be drawn to Chinese market. Since the mid 1990s, more and more foreign capital had flown into China. More and more foreign brand consumer goods appeared in domestic stores. In the early 80s, however, the situation was different. Various structural conditions determined that foreign companies could not play a substantial role in Chinese market.

The most important reason that foreign companies could not fit Chinese market was purely economical. The products of foreign companies were simply too expensive for Chinese customers to afford. Although people liked foreign products because they were

better designed, more fashionable, and good quality, the high price alone could effectively prevent them from entering Chinese market. Thus, though foreign companies were very responsive to market opportunities, their existing products did not fit the market conditions then. Even in early 90s, the market for luxury consumer goods was still very small. As mentioned in the previous section, several major luxury department stores that were the joint-ventures with foreign capital had to accommodate relatively low-end goods to attract customers and to survive.

Furthermore, various unique features of Chinese society also caused difficulties for foreign companies to set up businesses in China and produce products that could be competitive in Chinese market. For instance, the suspicion toward foreign investment, formed through the painful experience with the West during the semi-colonial period and the constant threat by the US and the Soviet Union after the CCP took the power, was very strong. People were very cautious in introducing foreign capital. The cultural barrier is another difficulty for foreign companies to overcome. Since Chinese culture is so different from Western cultures, companies without links to Chinese tradition would encounter many difficulties. The pioneer of foreign capital in Chinese market was mainly from overseas Chinese investment. Thus, although China adopted the policy of opening its economy to the outside world, the discrepancies between Chinese society and the Western countries could not be bridged overnight. Also it took time for both Chinese people and the Western business community to understand each other's uniqueness. These factors did effectively deter the foreign capital from entering Chinese markets in the early 1980s.

To be fair, though foreign companies were not able to enter Chinese market at that time, foreign products did indirectly affect the markets. Because people liked foreign products, this mentality provided good market opportunities. Rural enterprises in certain areas benefited greatly by imitating the designs of foreign products. A typical example is that the rural enterprises in Jinjiang City were famous for their "Guochan Xiao Yanhuo (domestically produced foreign products)." Jinjiang City has many overseas Chinese connections. Through these connections, the information on the fashion trend in international markets, particularly in Hong Kong markets, could be quickly sent to Jinjiang's rural enterprises. Then people wasted no time to imitate the products and sell them in domestic markets. When I visited Jinjiang City, many people told me that if there was a new design in Hong Kong market, one or two days later, similar design would appear in the local garment market. Because these "domestically produced foreign products" were both fashionable and cheap, they were very popular in China. Although Jinjiang City has many disadvantages in developing rural enterprises, this strategy did give its rural enterprises a competitive edge. It was an important cause for the extraordinary growth of rural enterprises in Jinjiang City.

The above discussions of potential players showed that although Chinese rural enterprises had many significant weaknesses, their structural characteristics did provide them with several critical strengths that fitted the market conditions well. For other players, they might enjoy many very attractive advantages but lacked of a few critical strengths. Thus, under the given market conditions, Chinese rural enterprises enjoyed certain competitive advantages over other players in producing non-agricultural products.

Or taking a different perspective, it meant that Chinese peasants not only fulfilled their obligations to supply the nation with enough agricultural products, but also had to assume the responsibility to improve the supply of non-agricultural products. Ironically, the problem of supply shortage of many non-agricultural products was solved by the player outside the sector because the designated player was not able to live up to the expectation. An additional comment, what has been discussed so far mainly focused on the structural characteristics of each players. The people factor should also be considered in explaining different performance. This would be the topic for the next two chapters.

3. Material conditions of rural entrepreneurial activities.

China's comprehensive industrial base: The key contribution of state enterprises.

Chinese state enterprises were slow in responding to the market opportunities therefore did not achieve the deserved share of growth. Nonetheless, this sector of economy did play a crucial role in the development of rural enterprises. It served as a reliable supplier of various resources. For a highly competent entrepreneur could not maintain a business operation unless the basic supply could be obtained somehow and somewhere. Fortunately, China does have the capability to supply rural entrepreneurs with basic materials at a massive scale, thanks to her comprehensive industrial base which exclusively consisted of state enterprises at the early 1980s..

To establish a comprehensive industrial base is always a strategic goal of the CCP. In addition to the ideological concerns of being distinctive from the capitalist camp

(Dong, 1992), there are other reasons to make the effort. First, it directly relates to the fundamental goal of the CCP to revive China as a strong nation and reclaim the glory of Chinese culture. Being economically and militarily independent obviously is a key to realize this goal. If a nation has to rely on other world powers for economic and military support, then it could not become a strong nation. The painful experience that China had in her interaction with the world powers further enhanced Chinese leaders' beliefs in the importance of the material base for independence.

The effort to build a comprehensive industrial base started right after the CCP took over the power. The first five-year plan (1953-1957) laid foundation of such a base with the aid from the Soviet Union. The economic blockade led by the US since 1949 and the rupture with the Soviet Union in early 1960s created enormous difficulties for this effort. Nonetheless, those difficulties did not soften the determination of Chinese leaders. In contrary, those incidents further enhanced a sense of urgency to build a comprehensive industrial base for maintaining the sovereignty of the nation. Although the process of national industrialization was frequently interfered with by various political movements, it kept moving forward steadily. When the CCP won the revolution in 1949, China's modern industry was almost negligible considering the size of the nation's territory and population. By the end of 1970s, China had achieved a national industrial base with an impressive strength. Table 5.3. summarizes the output of some major industrial products between 1952 and 1984.

In terms of overall technical sophistication and the output of major products, Chinese industrial base still lagged far behind the major industrialized nations in early

1980s. Nonetheless, this industrial base was very practical for the development of rural enterprises that did not demand a high level of technical sophistication. Its practical values also lay in its comprehensive coverage of most industrial production sectors and substantial output in each sector. Basically, the material needs in developing rural enterprises could be primarily satisfied by this industrial base.

Then the next question might be raised: Can rural entrepreneurs have access to various resources from China's industrial base? If not, the existence of such a base would be irrelevant to their business activities. This question is raised because of a legitimate concern. China's modern industrial base was established through the effort of government and its operation was controlled by the state planning. Thus, the distribution of major industrial products, such as iron, steel, yarn, and energy, has to go through official channels to the designated receivers by the state planning. Rural enterprises, on the other hand, were primarily excluded from the state planning. Officially, they were not allowed to use the resources covered by the state planning. Or in other words, rural enterprises could not benefit from China's comprehensive industrial base.

Fortunately, a centralized and planned economy was never fully developed in China (White, 1988). Substantial local autonomy did exist even before the economic reform. After 1978, various reform policies further increased the local autonomous and reduced the power of central planning. To be excluded from the state planning put rural enterprises at a disadvantage position to utilize the nation's industrial buildup but did not prevented them from doing so. As discussed in Chapter Four, there were many official and unofficial links between rural and urban areas. Those links helped rural entrepreneurs



to channel the resources from the modern industrial sector to support the operation of rural enterprises.

A unique evidence in this regard was that rural enterprises were frequently criticized for competing resources with state enterprises through illegitimate practices (Yu & Huang, 1990; Dong, 1992). The term illegitimate practice mainly refers to obtaining resources through the channels other than the state planning. Since almost all rural enterprises were excluded from the state planning, in most cases, the only way that rural entrepreneurs could get resources was through non-planning channels. Such a criticism was the evidence that rural entrepreneurs did manage in one way or another to extract resources from the modern industrial sector and they were quite successful in doing so. Obviously, no complaint could be made if rural entrepreneurs were not able to obtain the government controlled resources.

In Sunan area (The southern part of Jiangsu Province), the development of rural enterprises was the most advanced in the nation. Zhengli (In Tao, 1988) summarized several forms of non-official channels that rural enterprises in that area obtained supplies. The first was through the actions of individual enterprises. For instance, many rural enterprises used recyclable materials discarded by state enterprises as a major supply source of production. Another source was to buy materials at a higher price. For as a reform policy, a dual price system was created that allow a small portion of government controlled resources to be sold outside the web of state planning at higher prices. Although this system treated enterprises not covered by the state planning unfairly, it nonetheless provided them with opportunities to obtain some previously inaccessible



resources. For instance, to relieve the severe shortage of electricity, many rural enterprises purchased diesel generators. Diesel was a government controlled product but was available in the market at higher prices. Thus, rural enterprises had to use expensive diesel to generate electricity to maintain production. In 1986, 400 million out of 600 million kwh electricity used by Wuxi rural enterprises was generated this way. Finally, the contribution of purchasing personnel was a critical factor in getting supplies. It was the main approach that rural enterprises solved supply problems. In Jiangnan area, about 150,000 purchasing people were spread all over the whole nation and actively search for supply.

The second channel was the horizontal cooperation with state enterprises. As discussed previously, this form allowed rural enterprises to share the resources allocated from state planning. A manager in Dazu County of Sichuan Province told me that at one time when the supply in the market was very tight, he got about 50 tons of copper from a state enterprise through this channel. Many enterprises I visited in Wujiang had the similar experiences. The third channel was the semi-official supplying and marketing cooperative in rural areas. Those organizations had established extensive marketing and purchasing connections with state enterprises. They used their connections to find supplies for rural enterprises. This channel was effective in Sunan area because collective ownership was the dominant form of rural enterprises. Thus, as collective purchasing and market organizations, those cooperatives had obligations to help local collective enterprises. This channel was not very effective in other areas I visited. Fourth, the local governments were also important players. On one hand, they could protect local

businesses from being punished because of their illegitimate practice in obtaining resources. When I visited Baisu Township, a local official told me a story that a manager gave kickback to a state enterprise purchasing staff. Later the officials from higher level government came down to investigate the manager's illegitimate actions. The local official told those higher level officials that he approved those activities because the company needed those resources. Because no individual benefited from the transaction, the whole investigation was called off and that manager avoided possible punishment. The similar story also happened to the manager of Dazu County who got 50 tons of copper from a state enterprise. Because copper was in tight supply, what he did was to sell it to other companies and made about six hundred thousand yuans in profit to upgrade his company. The manager was almost arrested for that action. Again, because his company was a collective enterprise and he did not take money himself, a local official managed to stop the investigation by higher level government. Another role played by local governments in Sunan area was to bypass the state planning and negotiate with the local governments in other resource rich areas to exchange resources with consumer goods, technical assistance, and capital. It acted like import and export transaction between nations. For instance, the Wuxi prefecture in the Sunan area obtained resources through government effort worth more than one billion renminbi between 1983-1985.

In other areas, some of the above mentioned practices were also adopted. For instance, in Wenzhou City, the development of rural enterprises at the early stage was heavily relied on the recyclable materials discarded by state enterprises. For instance, they used waste plastic to make plastic shoes and buttons. Small pieces of metal sheet that

could not be utilized by large scale production were used to make badges and title plates. In Ruian County of Wenzhou City, its family businesses consumed fifty thousand tons of waste plastic and rubber in one year (Yu & Huang, 1991).

Among all practices of obtaining supply through non-official channels, the effort of purchasing and marketing personnel (Caigouyuan) is the most critical. Particularly at the early stage of development, those people were the most valuable to companies because production was a less serious problem than marketing products and obtaining materials. In a company, the most important role that a rural entrepreneur played was often purchasing and marketing. Among the entrepreneurs I interviewed, many of them had purchasing and marketing experiences before starting their own businesses. Because the marketing and purchasing channels were usually established through the personal contacts by rural entrepreneurs, it became very difficult to replace existing management of a company. Theoretically, local governments have the power to replace the manager of a collective enterprise. In reality, to practice this power was not easy. In Wujiang City, several local officials told me that they really wanted to replace some managers but couldn't. Because if they did, the companies would lose their marketing and purchasing connections. Then productions would collapse.

"Kick back" was widely used to get supply and market products. It was in a gray area between market competition and bribe. At the early stage of reform, people in China had strong negative reactions to this practice because it served individual interests. However, this practice is not unusual in a market economy, particularly at the early stage of development when various regulations have not been established. The transactions are

more governed by demand-supply through interpersonal contact rather than through processes regulated by laws. The highest bidder is often the winner. This phenomenon exists in all market economies. It is controversial in China because it used to be viewed as the practice of capitalist economy and a form of individual gain. It was ideologically incorrect in a socialist economy.

The conditions of Chinese society also promoted the use of this approach because rural entrepreneurs had to acquire supplies to maintain production but could not do that through legitimate channels. In my investigation, I heard many stories that the purchasing personnel of rural enterprises were denied to buy production equipment though they would pay cash for it because production equipment was distributed through the state planning. In order to get supply, some unusual approaches had to be adopted. Therefore, they would give "kick backs" to key persons who had to power to allocate what they wanted. "Kick back" was also an important mean to motivate those purchasing people to try their best in getting supplies. Those who could successfully obtain much needed but difficult to get supplies were rewarded generously. Actually, from a perspective of market competition, this practice puts rural enterprises at a disadvantage position in competing with state enterprises. It increased their costs of production substantially because state enterprises got supplies at much lower prices through state planning. Nonetheless, rural enterprises were able to absorb this unfair treatment and still make substantial profits.

The role of China's comprehensive industrial base in the development of rural enterprises was not just limited as a source of material supply. More important, it was a critical source of technical and managerial know-how. Technical and managerial staffs



from state enterprises made critical contribution for many successful rural enterprises. For instance, as discussed in Chapter four, the success of Fengzhu Bleaching Dying Company in Qingyang Township, Jinjiang City owes greatly to the expertise of its chief engineer, who was from a state research organization. Of course, the entrepreneur played the key role to have the chief engineer join the company. Nonetheless, in order for rural entrepreneurs to recruit competent technical and managerial personnel, there should be a pool of those people to start with. Or it is simply impossible to find those people. At the time of my visit, Fengzhu Company had about 40 technical and managerial staffs. Almost all of them were from state enterprises or government agencies. There are too many stories like this. Any rural enterprise that had grown to a significant scale benefited from the support of technical and managerial personnel from state enterprises and government organizations. For instance, Yanshan Ceramic Company of Cizao Township, Jinjiang City, was established by the previous managerial staffs of a state ceramic factory. A factory in Dongshi township, Jinjiang City, produced video cassette parts and had the similar situation. A communication cable factory of Yangshan Village, Shengzhe Township, Wujiang City hired the most famous cable expert in China as its technical advisor. In Meiyuan Township of Wujiang City, a company hired a dozen senior engineers from state enterprises and became a rare example of high-tech rural enterprise. A copper wire factory in Tongliang County got its management team from a state enterprise. The phenomenon of "Saturday engineer" in the suburban areas of Shanghai City during the mid-1980s was another example that technical personnel of state enterprises helped rural

enterprises. It was a phenomenon that engineers of state enterprises went to rural areas during the weekend and helped rural enterprises solve technical problems.

In summary, China's comprehensive industrial base is a solid material foundation for the development of rural enterprises. Although people within this modern industrial sector were not enthusiastic, sometimes even hostile, to rural enterprises, rural entrepreneurs still managed to enjoy this material base through many complex links in Chinese society. Those channels were very effective in distributing urban resources to rural areas as long as rural entrepreneurs made extraordinary efforts. More important, such a material base is a critical condition for independent development. If China had to rely on foreign resources, the foreign interests would significantly affect the domestic economy. This is an important reason that the development of rural enterprises is completely different from the experiences of those industrialized nations. Foreign experiences had little impact in the development process because rural enterprises did not rely on foreign resources.

Many people expressed negative attitudes toward the socialist industrialization strategy that once dominated China's economic activities (e.g., Dong, 1992; Han, 1993; White, 1988). It was blamed for various social and economic problems in Chinese society. For instance, it hindered the expression of individual enthusiasm; it was driven by ideological agenda rather than by the natural law of economy; and it created the supply shortage of consumer goods because consumption was neglected. However, to be fair, this strategy does have many positive outcomes as well. The comprehensive industrial base is the result of this strategy. It prepared the material foundation for the independent

development of China. Though the nation had paid high price for this industrial base, the success of rural enterprises is good evidence that the price is not paid in vain. Ironically, the development of this industrial base was at the expense of rural economy and people's consumption need. At the meantime, it also created a huge market for consumer goods and established a material base of production. Then in early 80s, rural people took those opportunities and developed the non-agricultural sector in rural areas. To some extent, the success of rural enterprises could be viewed that rural people got some payback from their previous sacrifice for the national industrialization.

Agricultural surplus labor: A precious resource of development.

The pressure of transferring rural surplus labor is considered by many as a major driving force to the development of Chinese rural enterprises (e.g., Wu, 1993; Lu, 1988; Du, 1990; Yu & Huang, 1991). Normally, the huge amount of surplus labor was regarded as a heavy burden that hindered rural economy. This section would take a different perspective to look at it as a precious resource for non-agricultural development in rural areas. Without it, rural enterprises would not grow to the current scale.

Surplus agricultural labor is indeed a very serious problem in China. Though no accurate statistics was available for the early 1980s, it was estimated that the surplus might account for one-third to one half of China's agricultural labor force (Dong, 1992). Even one-third would amount to more than one hundred million people in 1984 (out of 313 million agricultural labor in that year). In 1994, the estimate was about 200 million surplus rural labors out of 443 million totals (Fan, 1995). To find employment for such a

huge population is by any means a formidable task. Like other social and economic problems in China, agricultural surplus labor is a problem that has existed for a long period and became overt after the economic reform. Before the economic reform, the egalitarian system covered this phenomenon by equally distributing resources and opportunities. Everyone had a little but no one could get enough. For instance, in Jinjiang City, the opportunity to work was rationed during the commune era (Liu & Wei, 1992). Since the introduction of household responsibility system, the situation was changed. People were encouraged to fully utilize individual potential. Thus, the fact that agricultural labor force did not have the sufficient workload became overt. In many places, just one third or even one fourth of the total labor force is enough to carry out all agricultural production. For instance, the per rural labor arable land in Jinjiang City was 1.55 mu (0.26 acres) in 1978 and 1.16 mu (0.19 acres) in 1987 (Liu & Wei, 1992). Usually, a rural labor could take at least three mus of arable land alone. Thus, about two-third of rural labor in Jinjiang City was redundant in 1987. The author has relatives in a village of Wujiang City. One of them contracted two mus (1/3 acre) of land. He told me that he only needed to spend two months of his time on the contracted land. The rest time of the year, he had to do something else to make money.

Though this problem created difficulties for rural economy, surplus rural labor was nonetheless a critical resource for rural enterprises. To view it as a resource has several implications. First, it provides rural enterprises with the sufficient supply of labor force. Most of the rural enterprises were labor intensive. A key factor that determined the development of labor intensive businesses is whether there was abundant supply of cheap

labor. In 1984, Chinese rural enterprises employed 52 million workers. Interpreting from a different perspective, this number meant that it needed 52 million people for rural enterprises to reach that scale in 1984. In 1994, the number was 120 million. Obviously, if there was not enough labor supply, Chinese rural enterprises could not develop to such a massive scale. During my field study, I never met an entrepreneur who complained about the shortage of labor workers. The only complaint on labor supply was the high mobility of labor workers and the difficulties in retaining skilled workers. Second, besides the labor supply being sufficient in quantity, Chinese rural people are high quality workers too. They are industrious, quick learners, and self-reliance. Rural people are physically capable of and psychologically willing to taking on very demanding work. The quality of labor forces is an important factor that explains the success of Chinese rural enterprises. This issue will be discussed in depth in the next two chapters. Finally, also because of the huge amount of surplus labor, it created a sufficient buffer zone that allows to transfer out a substantial portion of rural labor to the non-agricultural sector without causing negative impact on agricultural production, as predicted by Fei-Ranis two-sector labor surplus model (cited in Gillis et al., 1992:57). On contrary, transferring out some surplus labor actually promotes agricultural production by improving the efficiency of remaining labor force. Interestingly, in Fei-Ranis model, a precondition that industrialization would not put any demands on agriculture is to find some low-cost way of moving the food consumed by transferred labor from rural to urban areas. For that model assumes the labor transferring is in a form of rural-to-urban migration. This condition was automatically met in the case of Chinese rural enterprises because the



transferred labor did not change its location. Consequently, there was no need to move the food consumed by this labor to urban areas.

4. Summary

Conditions that are directly related to the business operation of rural entrepreneurs are the focus of this chapter. First, the massive growth of Chinese rural enterprises during a very short period of time indicated the existence of a market that had sufficient capacity to absorb huge amount of products. Market demand is the most critical external condition for a business operated under market mechanism. Obviously, a business cannot survive and grow if the market does not demand its products. The analysis in this chapter showed that the China market in the early 1980s was characterized by the huge demand for various products and service and the severe shortage of supplies. Several factors contributed to the market conditions, such as the explosive release of people's desires for consumer goods after a long time suppression due to the income constraints and the psychological pressure created by the government, the substantial growth of people's income after the reform and the egalitarian nature of Chinese society which were the material bases for a huge collective purchase power, the need to increase export, and the need of state owned enterprises for business expansion. Furthermore, although the market demand was huge, the capacity of existing industrial sector, which primarily consisted of state owned enterprises, could only meet a small portion of that demand. The foreseeable growth rate in that section indicated that the situation would not change substantially in

the near future. Therefore, such market conditions provided golden opportunities for large scale business development.

The second issue addressed in this chapter is structurally determined competitive advantages of rural enterprises over other potential players. For given the golden market opportunities, it is natural to ask that how come rural enterprises were the most successful. For other potential competitors were obviously much more superior in many aspects. The analysis showed that though rural enterprises had many weaknesses, such as difficulties in obtaining capital, material, and technology, lack of industrial experiences, and poor business management, compared with other potential players, they enjoyed several critical competitive advantages. For instance, rural enterprises were highly responsive to market conditions. In comparison, the main competitor at the early stage of development, the state enterprises, were slow in responding to market conditions due to their structurally determined weaknesses therefore missed opportunities of development. Also rural enterprises collective possessed the capacity to produce huge amount of cheap products that perfectly match the demand of market. This strength gave rural enterprises competitive advantages over foreign companies. Although the latter were highly responsive to market condition and could offer high quality products, the high price of their products determined that they could not play a significant role because the demand for high quality and expensive goods was limited. Basically, the competitive advantages of rural enterprises were manifested that on one hand, their strengths fitted market conditions very well, and on the other hand, some of their weaknesses, such as low product quality, did not impose significantly negative impact because the market

tolerance for those weaknesses was high at the early stage. More important, although other potential players enjoyed many strengths, they lacked of some critical strengths required by the given market conditions. Therefore, these weaknesses of other potential players made rural enterprises even more competitive.

Third, given that rural enterprises collectively reached a massive scale, there should be a proper resource base in China to support the development at such a level. This is a twofold issues: the existence of such a resources base and its accessibility to rural entrepreneurs. For the first part, China's comprehensive industrial base provided a reliable and sufficient resource base for equipment, raw materials, and managerial and technical personnel. Also, the huge surplus agricultural labor is both a pressure to stimulate the development and a valuable resource of high quality labor force. On the other hand, the various formal and informal links between rural areas and industrial urban areas provided rural entrepreneurs with the opportunities to obtain resource from China's existing industrial base. Nonetheless, because rural enterprises were not covered by the state planning, rural entrepreneurs had to overcome many significant difficulties to get resources they needed. Some of these difficulties will be discussed in Chapter 6.

In summary, the discussion of Chapter Four and Five suggested that the basic conditions for entrepreneurial activities in Chinese rural areas were there. Then it is up to rural entrepreneurs to turn these opportunities into business success. Whether they were motivated and able to do so are the topics for the next two Chapters.

Table 5.1 Distribution of investment in capital construction by economic sectors (%)

Period	Agriculture (a)	Industry (b)			Other (c)
		Total	Light industry	Heavy industry	
(1953-7)	7.1	42.5	6.4	36.1	50.4
(1958-62)	11.3	60.4	6.4	54.0	28.3
1963-65	17.7	49.8	3.9	45.9	32.5
(1966-70)	10.7	55.5	4.4	51.1	33.8
(1971-75)	9.8	55.4	5.8	49.6	34.8
1976-1980)	10.5	52.6	6.7	45.9	36.9
1981	6.6	48.8	9.8	39.0	44.6
1982	6.1	46.9	8.4	38.5	47.0
1983	6.0	47.5	6.5	41.0	46.5
1984	5.0	46.0	5.7	40.3	49.0

Source: Adopted for table 5.1 in White, 1988:160.

(a) "Agriculture" includes forestry, water conservancy, and meteorology.

(b) "Light" industry is mainly consumer goods, including industries using both farm and non-farm products as raw materials. "Heavy" industry usually produces means of production.

(c) "Other" includes construction, transportation, communications, commerce, science and public welfare (education, health, and culture).

Table 5.2 Per capita output of major agricultural products (1978-1984)

Year	Grain (kg)	Cotton (kg)	Oil-bearing crops (kg)	Sugar crops (kg)	Fruits (kg)	Pork, beef, and mutton (kg)	Aquatic products (kg)
1978	318.74	2.27	5.46	24.91	6.87	8.96	4.87
1980	326.69	2.76	7.84	29.67	6.92	12.28	4.59
1983	378.46	4.53	10.31	39.40	9.27	13.70	5.34
1984	392.84	6.04	11.49	46.11	9.50	14.86	5.97
1984 / 1978	1.23	2.66	2.10	1.84	1.38	1.86	1.22

Source: China Statistics Yearbook, 1994:31.

1 kg = 2.22 pound.

Table 5.3 The national output of major industrial products in China (1952-1984)

Year	1952	1957	1962	1965	1970	1978	1980	1984
Coal	66	131	220	232	354	482	620	789
Crude Oil	.44	1.46	5.75	11.31	30.65	104.05	105.95	114.61
Natural Gas	.008	.070	1.210	1.100	2.870	13.730	14.270	12.430
Electricity	7.3	19.3	45.8	67.6	115.9	256.6	300.6	377.0
Pig Iron	1.93	5.94	8.05	10.77	17.06	34.79	38.02	40.01
Steel	1.35	5.35	6.67	12.23	17.79	31.78	37.12	43.47
Cement	2.86	6.86	6.00	16.34	25.75	65.24	79.86	123.02
Plastics	2	13	40	97	176	679	898	1180
Chemical Fibers		.2	13.6	50.1	100.9	284.6	450.3	734.9
Yarn	656	844	548	1300	2052	2382	2926	3219
Cloth	3.83	5.05	2.53	6.28	9.15	11.03	13.47	13.70
Sulfuric Acid	190	632	968	2340	2914	6610	7643	8172
Caustic Sode	79	198	290	556	892	1640	1923	2222
Motor Vehicles		7.9	9.7	40.5	87.2	149.1	222.3	316.4
Metal-Cutting Machine	13.7	28.0	22.5	39.6	138.9	183.2	133.6	133.5
Plate Glass	1.98	4.30	3.67	5.99	9.28	17.84	24.66	41.90
Chemical Fertilizer	.039	.151	.464	1.726	2.435	8.693	12.321	14.602

Source: China Statistics Yearbook, 1994:404-411

Unit of measurement: coal, crude oil, pig iron, steel, cement, and chemical fertilizer are in one million metric tons; plastics, chemical fibers, yarn, sulfuric acid, and caustic sode are in one thousand metric tons; natural gas in one billion cubic meters; electricity in one billion kwh; cloth in one billion meters; moto vehicles and metal cutting machine in one thousand units; and plate glass in one million weight cases.

Chapter Six

Facing challenges:

Motivated Chinese rural entrepreneurs

At a macro level, the analyses of Chapter Four and Five showed that China's political, cultural, societal, economical, and psychological conditions in the early 1980s formed an environment for the massive participation of rural people in rural non-agricultural development. While the investigation from a macro perspective provided a bird's view how societal conditions contributed to the phenomenon, questions remain about how individuals responded to the opportunities, exactly how environmental conditions affected the actions of rural entrepreneurs, how to explain performance difference of individual businesses, and how the actions of individuals link to the development of rural enterprises. For instance, it is contended that a higher level of collective action is associated with a greater number of entrepreneurs in a society, given that other conditions are at optimal levels. Then a natural question would be how this proposition can be illustrated through individual actions. After all, it is the collective actions of many individuals that produced the story of rural enterprises. Thus, to fully understand a societal phenomenon, Chinese rural enterprises per se in this study, the conditions at the micro level need to be analyzed as well.

Though the macro conditions of Chinese society in the early 1980s created opportunities for entrepreneurial activities, significant individual differences did exist in



terms whether one would enter an entrepreneurial occupation and how well one did as an entrepreneur. The reality was that not every one became an entrepreneur and not every entrepreneur was successful. At the individual level, it was up to each person to take actions and make the differences. As stated in a Chinese popular saying: "Even if a piece of bread were dropped down from the sky, a person had to open his/her mouth to eat it." For Chinese rural entrepreneurs, nothing would be dropped down to them from the sky. They had to make extraordinary efforts to get every bit of resource for their business operations. The following two chapters will be devoted to how motives and abilities affected individuals' choice of being entrepreneurs and the performance of those who were in entrepreneurial positions. At the meantime, the impacts of environmental conditions will be explored at a micro level.

1. A rugged road of development: The difficulties faced by Chinese rural entrepreneurs.

Before the in-depth discussion about the impacts of personal factors, it would be worthwhile to review the difficulties faced by rural entrepreneurs in business operation. While the previous discussions depicted Chinese society as offering opportunities for entrepreneurial activities in rural areas, it is by no means that rural entrepreneurs worked in a comfortable and friendly environment. Judged by the material conditions and psychological climate, Chinese rural enterprises were actually developed in a very hostile environment. To say that the environment became more friendly was in a relative term. It is in comparison with the harsh political conditions before the economic reform. At that

time, it was politically dangerous for people to try their entrepreneurial potential. They could be jailed for doing so. In 1975, about 300 private business people in Jinjiang City were arrested for doing business on their own (Cao, 1994). Even after the economic reform, the attitude of Chinese government toward rural enterprises, particularly private enterprises, was permissive at the best but far from encouraging. Besides the permissive attitude and the removal of some administrative restrictions, the government did not do much to help the entrepreneurial activities in the non-state section.

At the early stage of development, to some extent, the situations of Chinese rural entrepreneur can be analogous to that of a slave who has just acquired his legal freedom. Besides the freedom in the legal term, the former slave virtually possesses nothing else, either material wealth or a respectable social status. He is still very poor, at the lowest level of social hierarchy, and looked down on by the people of the privileged groups. The fundamental difference between now and then is that his newly acquired freedom allows him to take actions to change his own situation. That would be completely out of question if he were still a slave. However, in order to do so, he has to make much greater efforts to achieve what the people of other social groups might accomplish easily.

When Chinese rural entrepreneurs tried to capitalize on the opportunities opened by the economic reform, almost none of critical resources was readily available to them. Worse than that, there are many unfair and discriminating barriers in the society that aggravated the difficulties. When rural entrepreneurs talked about their experiences at the early stages of businesses, they expressed a mixed feeling of pride and bitterness. They were proud of their successes in overcoming so many unimaginable difficulties. They also

had bitter feelings of unfair treatments they received. What rural entrepreneurs faced at that time were mountains of difficulties in business operation.

The difficulties associated with the low social status of rural people.

In terms of the official version of social hierarchy, Chinese peasants always have higher social status in the society. During the feudal periods, they were second only to government officials. Under the CCP ruling, they are second only to the working class. But the reality shows that although the CCP made persistent effort to create an equal society and achieved significant progress in doing so, comparatively, it is less successful to reduce the discrimination against rural people by other social groups, such as urban people. Psychologically, Chinese peasants were at the bottom of the society. This reality created enormous difficulties for rural entrepreneurs in their business operation.

In the previous discussion, I contended that China was an egalitarian society in the early 1980s in which opportunities were distributed fairly equally. Nonetheless, this conclusion was drawn in comparison with the situations of old China and those of other highly segregated and divisive society. Within Chinese society, some noticeable gaps still existed at that time, particularly between rural and urban. For instance, the average income of urban people was significantly higher than that of rural people though the nominal income of urban people was very low. Also the government issued several policies that gave urban people preferential treatment in term of material supply. The gap between rural and urban, however, was more psychological than physical at that time. Urban people generally view rural people as dirty, conservative, backward, narrow and

close minded, not educated, less civilized, uninformed by and unexposed to many modern achievements, insensitive to societal progress, no desire for excellence, and primitive.

"Tu (its direct English translation is earth, dirt, or soil)" is a word of high frequency usage in China. This word is directly related to peasants because they work with dirt and soil all year long. It describes something outdated, old fashioned, obsolete, primitive, worthless, coarse, low quality, and ugly looking. People who live in a modern environment would and should not speak, think, use, and produce something that is "Tu." A stereotypical view is that only peasants would use and produce "Tu" goods because they do not know how and would not want to use and produce something that is not "Tu."

In urban people's mind, there is no correlation at all between anything of rural and modern production. It should not be hard to imagine how difficult it could be to get other people to accept your products or service if no one believes or trusts you. The urban bias was not a serious problem when the development of rural enterprises was restricted within rural areas by the "three local" policies. At that time, they did not have significant interaction with the urban sector of economy. In most cases, the supply and markets were all within local rural areas. Also rural enterprises were regarded as a supplemental element to urban economy. They were officially assigned lower status than the urban economy. Their relation with the urban sector of economy was to receive assistance from the latter. Thus, the sense of urban supremacy was actually enhanced in the process.

However, in order to expand business activities, rural enterprises had to invade the territory of the urban economy for both supplies and market share. Also at this time, they acted as serious competitors against the urban economy. Then the negative impact of

urban people's discriminating attitudes toward rural people became evident. Rural entrepreneurs often had to persistently beg others to try their products, to give them supplies, to get technical assistance, and to treat them seriously. The manager of Dasheng Shoe Factory, Xiao Shui Geng, was one of the ten model rural entrepreneurs recognized by the central government in 1987. His company was in Baishu Township of Wujiang City, Jiangsu Province. Shortly after the company started, to search for market opportunities, he took a bag full of shoe samples and went Shanghai City and tried to persuade state owned stores to sell his products. After several days of futile attempt, no stores would accept the products made by a peasant. In desperation, he decided to change his strategy by selling the shoes himself. He opened the bag and displayed his shoes on the side walk, right in front of a state owned shoe store. Because the shoes his company made were more fashionable and better looking than those displayed in state owned stores, they attracted people passing by. In few hours, all his shoes were sold out. His success impressed the manager of that state shoe store and agreed to carry the peasant made shoes.

Another story is about Hengan company in Jinjiang City, Fujian Province. It produces woman products. When they tried to open the Shanghai market, no one wanted to deal with them. They fought for about two months in vain. Finally, after months of persistent efforts, one state company agreed to try their products. But the state company took the advantage of the situation and set the price far below the cost. Facing such an insulting treatment, the manager of Hengan Company decided to go ahead and accept the deal as a stepping stone to the market. Then their products were very well received by the



consumers in the market and finally the state company agreed to carry their products at a fair price. After both companies had established good business relationship, the manager of Hengan Company asked people in that state company why they set such an insulting price at the beginning. The reply was "because we did not want to do business with you" (Fu, 1992). This type of story is countless. In 1987, the manager of Fengzhu Bleaching Dying Company in Jinjiang City came to Beijing and tried to negotiate cooperation with a state research organization, no one treated him seriously, even though he was introduced and accompanied by a senior engineer of that organization. My father happened to work in that organization and was involved in negotiation. At the end, after all sorts of maneuver, the cooperation was set. Nonetheless, the people of state research organization primarily viewed it as a charitable gesture on their side. They never thought of the Jinjiang entrepreneur as a serious business partner. Ironically, this arrogant attitude cost the state organization. Fengzhu Company became very successful a few years later. Then people in the state organization complained that it did not pay them back well. But this was the fault of the state organization itself because it avoided involving deeply in business operation at the beginning and gave up many opportunities to invest. For instance, it insisted that the company should pay a fixed amount of money every year as return rather than the share of profits. They also would not make significant capital investment. Thus, when the payback time came, they could only get a little.

Even after rural entrepreneurs tried very hard, it is often happened that they still could not get what they needed for their business. In dealing with people of other social groups, rural entrepreneurs had to swallow the bitterness of no self-esteem. Nonetheless,



for business development, they had to reach out for market, supply, and technology. To fight against the urban discrimination became an inevitable and formidable task for rural entrepreneurs. The famous "Siqiang Siwang Spirits" summarizes the extraordinary efforts that rural people had to make in their business activities and were considered as critical factors for the success of rural enterprises. This term is the brief expression of four Chinese words. Its verbatim English translation would be "Four thousands and four ten thousands spirits." It means that rural people succeeded because they had walked thousands and ten thousands miles of road, visited thousands and ten thousands of homes and organizations, talked to thousands and ten thousands of people, and endured thousands and ten thousands of difficulties.

That rural people had to make extraordinary efforts is partly related to the psychological barriers associated with their low social status, which created extra difficulties for them to acquire various resources. An entrepreneur in Shengze Township of Wujiang City told me that at the very beginning, he had no idea who could be the customer. What he did was to go through the public phone book and write down the addresses of organizations that he guessed might have some relevance. Then he had to personally visit all those organizations to find customers. Many organizations even did not allow him to enter because he was a peasant. Nevertheless, he persisted and finally opened the market. Through my interview, I learned that many people with whom rural entrepreneurs would like to do business refused to meet them simply because they were peasants. When the same Shengze entrepreneur learned a business opportunity with a



state enterprise, he could not get inside the factory to meet the manager. The door attendant just did not believe that a peasant could have some business with the factory.

The culturally originated discrimination was further enhanced by the operation of a dual economy structure in the Chinese society (Dong, 1992). It is the co-existence of a modern urban economy and a traditional rural economy. In such a structure, the urban sector was favored in resource distribution and developed to a relatively advanced level. On the other hand, the rural sector was generally left on its own and remained largely primitive. Consequently, it leaves people with impression that rural economy was less important than therefore inferior to urban economy. Though this situation was structurally determined and not the faults of rural people, the primitiveness of rural economy inevitably generates negative images of rural people's ability and motivation to pursue modern production. For it is a natural tendency to attribute others failures to their personal dispositions, though it may not be the truth (Jones et al., 1972). Reflecting such a stereotypical view on rural people, when a rural entrepreneur led a group of peasants to start a primitive factory to produce metal products, people from a state enterprise laughed at them and said: "Never heard such primitive production could be called a factory." Some peasants felt humiliated and wanted to withdraw. Then the entrepreneur had to encourage them to look forward and have faith in the future (Chen, 1988). The stereotypical view that rural people were incapable of pursuing modern production were even accepted by rural people themselves. Rural entrepreneurs not only need to fight urban people's doubts about their abilities and seriousness in modern production, also people's suspicious attitudes in their home village. In Jinjiang City, an overseas relative



visited her home village. When she offered to help people with capital to set up factories, most people thought that was a very funny idea. At that time, it was psychologically difficult for those peasants to link themselves with modern industrial production (Shi Jing, 1992).

It should be noted that the CCP had made extraordinary efforts to improve the social status of rural people and changed the discriminatory attitudes in the society. For instance, urban youth and government officials were sent to rural areas to participate in agricultural work. Artists and professionals were required to serve rural people. People were educated about the great contribution of peasants to the society. Any thoughts and behavior of looking down on peasants were criticized. To educate intellectuals to identify themselves with workers and peasants was Mao's favorite topic. He even said that though their hands were dirty and feet had cow dung on, workers and peasants were cleaner than unreformed intellectuals (Mao, 1942). Nonetheless, the culturally and structurally determined biases toward rural people were very difficult to change. In my discussion with rural entrepreneurs, they all mentioned that to fight against these psychological and structural discrimination was the most difficult thing to do.

It is necessary to point out that the discussion of this section does not contradict the conclusion in Chapter Four that China was egalitarian society in the early 1980s and the opportunities for entrepreneurial activities could be equally accessed by everyone. For no perfect equality can exist in any society. More or less, various gaps exist. It was true that there were many noticeable gaps in China. Nonetheless, compared with the most society in the early 1980s, on a scale of equal vs. unequal, China was much closer to the



end representing an equal society. Though the psychological discrimination against rural people was substantially strong and created enormous difficulties for rural entrepreneurs, it did not reach a level that could deprive them opportunities from practicing their entrepreneurial potentials,

Difficulties associated with other factors.

First, lack of knowledge and information was a tremendous barrier to overcome. In most cases, rural entrepreneurs had little technical know-how about their businesses. Between 1984 and 1986, the author worked as a computer engineer in Microbiology Institute, Chinese Sciences Academy. Some of my colleagues specialized in microbiology were helping several rural enterprises in food processing business. They told me stories which showed how little technical knowledge rural entrepreneurs had. For instance, some companies wanted to produce soy sauce, a cooking materials widely used in China. However, the peasants did not know that all materials and equipment had to be pasteurized. Thus, bacteria contaminated every step of the production and no soy sauce could be produced. They could not figure out the causes of failure until were instructed by my colleagues. My colleagues told me that it was very simple to solve this problem. What the peasants needed to do was to wash and then keep all equipment in boiled water for a moment. They did that and produced quality soy sauce. The manager of Fengzhu Bleaching Dying Company in Jinjiang City told me that at beginning, he knew nothing about the production. His thoughts were that as long as the machine kept running, he would be able to sell the products and make money. The reality was that quality of his



products was poor and business seemed to go nowhere. He admitted that his previous thoughts were very naive.

The technical knowledge that rural entrepreneurs needed was actually very simple and basic rather than something sophisticated. In 1987, I conducted a survey on the achievement motive of young scientists in Chinese Sciences Academy. In the process, I interviewed several people in a research institute. During the interview, a librarian laughed at a phenomenon in his institute that the literature on some simple and basic production process were hot items among scientists. Those literatures were collected during the Great Leap Forward when scientists were called on by the government to help peasants to set up simple factories. They became popular again because the rural enterprises those scientists were helping needed that type of knowledge. He thought the situation was ridiculous because the research institutes of Chinese Sciences Academy were supposedly to be the top quality facilities in the nation. Therefore the scientists should focus on advanced and sophisticated topics rather than how to make bolts and nuts. Nonetheless, this story demonstrated from a different perspective about the lack of basic and simple technical knowledge by rural entrepreneurs. This situation was different from many high-tech entrepreneurs in urban areas who generally had good understandings about the technical issues.

Second, the living and working conditions were very difficult in rural areas. For instance, the road conditions in many rural areas at the early 80s were very poor. Many villages even did not have roads that could be used by motor vehicles. The supply of electricity was extremely unstable as well. Many rural enterprises operated according a



schedule of power supply. People and machine all stood by and waited for power. Because the use of electricity decreased in late night, people would sleep by the machine. When electricity comes, they got up and turned on the machine to work. The hygiene conditions were poor, such as no running water, very dirty toilet, primitive and insufficient medical facilities. Because the development of rural enterprises was restricted in rural areas, those poor conditions created many difficulties for rural entrepreneurs to attract urban people to work in their companies. For instance, many technical people from urban areas would not stay long simply because of the poor hygiene conditions. An entrepreneur in Jinjiang City, who produced toys, told me that he did not like Shanghai workers. His theory was that although Shanghai workers were smart and skillful, they could not withstand poor living conditions. He used to pay high wages and hire several Shanghai workers. They all left very soon because they did not like the working and living conditions. The entrepreneurs said that those Shanghai workers were very helpful for his business. Unfortunately, he was not able to keep them and had to settle down with less skillful workers.

There were also many other difficulties, such as limited financial resources of rural people and the lack of information about the market. However, a comprehensive discussion of the difficulties faced by Chinese rural entrepreneurs is beyond the scope of this study. The purpose here is to show that Chinese rural enterprises were developed under very difficult conditions. The brief discussion does not fully catch the magnitude of those difficulties. It is out of the power of human language to describe how tough they really were. Those difficulties can easily scare many people away from becoming rural

entrepreneurs if they do not have tough nerves. People generally did not pay enough attention to those difficulties in studying Chinese rural enterprises. One reason is that rural people normally did not complain much and they mainly focused on how to handle the difficulties. Many rural entrepreneurs I interviewed displayed an attitude that if there was a difficulty, then let's take action to handle it.

Before moving on to the next topic, it should be noted that the difficulties discussed so far are primarily operational issues. They are the problems that rural entrepreneurs had to solve in order to take the advantage of many opportunities emerged in the society after the economic reform. Those problems were solvable, though extraordinary efforts were often required. The environment in which Chinese rural enterprises developed was characterized by coexisting of many entrepreneurial opportunities and formidable difficulties. It is neither a situation in which everything was completely determined by the external factors and individual effort had no impact on the outcome, nor that everything could be readily accomplished without significant individual effort. As long as the outcome is not completely determined by non-personal factors, there is room for individuals to take actions and make differences. This was the situation that Chinese rural entrepreneurs were facing in the early 1980s.

The history of a packaging material factory in Shengze Township, Wujiang City is a good example to show the interactive impacts of opportunities and difficulties on business outcomes and the role of individual actions in the process. That factory located in a village of Shengze Township, Wujiang City. The entrepreneur was the head of that village. When I interviewed him in 1995, he was in his early 40s. This story started with

his experience in a hospital. One time, he got sick and stayed in a hospital. During his stay, a son of a Suzhou City vice mayor was there too and they became friends. Then the entrepreneur turned this connection into a business opportunity. With the help of that vice mayor, he formed a horizontal cooperation with a state enterprise, a TV company, to produce packaging materials. However, the production assignment by the state enterprise and materials allocated could only cover three or four days of work. To keep the business operating, the entrepreneur had to get the orders from other customers and production supplies for the next 26 days of a month. Those were formidable tasks. For instance, the entrepreneur had no idea who could be his customer. What he did was to go through the public phonebook and wrote down every organization that might have some relevance to his business. Then he personally visited all of them. Raw materials was difficult to find as well because it was covered by the state planning. He could not get it through official channel. When he learned that a state enterprise had the materials, he made some dramatic effort to get help from the manager of that enterprises. Finally, he established all critical links in his business operation and his company was very successful.

This brief story showed that one needs an opportunity as a start point. Then he had to take a series of actions to turn the opportunity into reality. Actually, the opportunity for this packaging company was not a very exciting one at the beginning and could be easily neglected by many. The difficulties were formidable that could easily scare people from even trying out the opportunity. However, that entrepreneur took actions, persisted in his effort, and succeeded at last.



2. Motivation of rural entrepreneurs and business success: Some popular explanations.

In discussing the impacts of individual actions on performance, motive is a critical personal factor to be addressed. To take and persist on specific actions required for the attainment of certain goal states, people have to want, desire, wish, or dream for being in the process of goal attainment. If one is not motivated, or he has no desire, no wish, and no dream, he will not have enough energy to take and persist on the required actions. In a situation where opportunities are available but difficulties are unprecedented, one's desire or courage to act plays a crucial role for making differences. In terms of what motivated rural entrepreneurs in their business activities, the focus of this study is on the impact of achievement motive. At the meantime, it would be worthwhile to look at other explanations before moving to the main topic.

Three popular explanations.

During my field work, I met with people from all life avenues. In response to my question what motivated rural entrepreneurs, there were several frequently used explanations. The first explanation was a simple and straight one. It contended that so many rural people became entrepreneurs because they were poor therefore hungry for money. Or in other words, if rural people were not that poor, then there should not be that many people entering the entrepreneurial occupation. This explanation has some face validity. In my interview with rural entrepreneurs, many told me how poor they used to be and now their lives were much better off.



The second one relates to the issue of surplus agricultural labor. It has been mentioned several times in the previous discussion. When I attended a conference on rural development in Jinjiang City, I learned a story that before the economic reform, the opportunity of work had to be rationed in some rural areas because there were too many people and too little land. People had to take turns to work. This story was given to support the notion that surplus labor was a driving force for rural people to engage in nonagricultural production. Some rural enterprises I visited were initially set up for absorbing surplus labor. For instance, a textile printing and dying mill in Shengze Township of Wujiang City was set up in 70s to absorb the unemployed high school graduates. This explanation suggests that rural people have no other choices but to engage in nonagricultural production to make their living.

The third explanation considered rural people's desire for urban and modern life style as a driving force. This explanation does catch a key character of rural people's mentality. Chinese rural people have a strong desire for urban life. It is a desires of upward mobility because peasants, as discussed previous, are at the lowest level in the society. A story published in Chinese newspaper at early 80s left me with a very deep impression on this issue. It described how differently rural and urban people would created stories for a picture they saw. The picture shows that a young woman holding a broom and staring at the distant skyscrapers on a city street. The urban people's reactions were that this woman did poorly at school so that she could not get a decent job and had to take some demeaning jobs such as a street cleaner. By contrast, rural people's reactions



were very positive. They admired that young woman because she could enjoy the city scene every day.

There is a very interesting example to show rural people's desire for urban life. In a traditional Chinese funeral, the family members usually make some dummy objects that the dead considered as the important part of a good life, such as money, delicious food, a house, and so forth. In recent years, reflecting the improvement in people's living standard, some luxury consumer goods joined the list, such as car, color TV, refrigerator, and wash-machine. These dummy objects were made by paper and other cheap materials. They were burned when the dead was buried. The purpose was to keep the dead to live a good life in the other world. When I attended a conference on rural development in Jinjiang City in 1994, people told me an interesting phenomenon at the rural people's funeral in Laiyan County of Henan Province. When a father died, among the dummy objects that the son prepared, there were two very special items. One was a certificate as a city resident. The other was an employee I.D. of state factory. In Chapter Four, the brief discussion of Hukou system showed that one had to have city resident status to live and work in a city and enjoy many preferential benefits. Thus, these two items indicate that the father considered living and working in a city as an indicator of good life. Also, the inclusion of these two items suggests that the son shared the same idea as well. Many rural entrepreneurs, who were the managers of collective enterprises established in early or late 1970s, told me that in earlier times, to work in nonagricultural section was a very honorable thing. Rural people were eager to work in those very primitive enterprises. The material reward for working in the nonagricultural section was no different from



agriculture because people in both sections were paid equally by their production teams.

The mere fact of working in a factory was very attractive to rural people.

Problems of those explanations.

Those three explanations are all reasonable where they apply and have factual foundations. However, in terms of understanding rural entrepreneurs' behavior at individual level, they are problematic in explaining why some would become entrepreneurs while others would not, and why some entrepreneurs were more successful and others were less successful. The notion that people are poor and want to be rich has little power in answering those questions. It is safe to contend that in a modern society, virtually everyone wants to be rich and likes money. It is very hard to imagine that the majority of people would refuse to be rich and do not like money. Of course, there are cases that some people would say they don't want to be rich and don't care about money. Further analysis often reveals that most of these people say so out of their frustration that they are not able to be rich or under some external pressures. Few really think so and act accordingly. The desire for being rich alone is not enough to drive people to take concrete actions and fulfill entrepreneurial role requirements. Or almost every one would try to be an entrepreneur sometimes in their lives. That is not the reality.

To be poor even has little power to explain why people would work hard. Among those I interviewed, many made a very interesting distinction between the willingness of enduring poor living conditions and enduring hard work. They indicated that someone who would endure hard living conditions may not be willing to work hard. In many cases,



people would passively accept hardship rather than make extra effort to improve their living conditions. Sometimes, poor people even find ways to enjoying the lower living standard. In the Conference on Rural Development held in Jinjiang City, there was one attendant who had worked in poor rural areas for many years. He told us a popular saying in a poor area showing that people were happy or at least not bothered by their poor living conditions. It said: "Put my feet on a tiny stove to keep them warm, Eat corn flour soup to fill my stomach, my life is even better than that of an emperor." He considered such an attitude as the biggest obstacle of development in poor areas.

Zhou Hongda, the vice president of Rural Entrepreneur Training College in Langfang City of Hebei Province, told me a story that demonstrated this point vividly. The development of rural enterprises in the inland areas lagged behind the coastal areas. In order to narrow the gap, the government encourage the successful rural entrepreneurs of the coastal areas to help the development of the inland areas. Some star entrepreneurs responded to the call and took actions. Daqiuzhuang Village, a star village in the suburb of Tianjin City for its advanced rural enterprises, accepted 500 young people from some poor inland areas to work at its enterprises for both occupational training and economical assistance. In terms of personal income, those people could earn much more in Daqiuzhuang Village than they did at their homes. Of course, the work was very hard. Within three months, more than 90% of those 500 inland people quitted and went back home. Zhou said, home sick was one reason that these people quitted. More important, they quitted because the work was hard and they didn't like it. Nonetheless, hard work was the norm rather than exception in rural enterprises. Everyone had to work very hard.



The problem is that those people were through the arrangement of government to work at the factories of Daqiuzhuang Village. They did not voluntarily leave their homes to searching for good life. For them, the work opportunities were given by the government rather than the results of their voluntary efforts. In terms of my observation, for those who voluntarily left their homes in the inland areas and find jobs in the factories at the coastal region did not have any problem to work hard. Often because they were so adaptive to hard work, their basic rights were violated by some unethical entrepreneurs who would take advantages of them. An entrepreneur of Yingling Township, Jinjiang City, told me that some of his workers would continuously work 48 hours without sleep and no one could stop them. I asked why. He replied that they wanted to make more money under the piece rate pay system. In this case, the workers were not forced to work 48 hours. Of course, the entrepreneur did nothing to stop them because it brought him benefit by keeping the machine running.

The surplus labor as a pressure to drive people to find job opportunities is not a sufficient explanation why people would choose entrepreneurial occupations. When people have nothing to do, their behavior can be very different. Some scholars also think that it is a narrow-minded view to consider the pressure of surplus agricultural labor as the primary force to transform peasants into entrepreneurs (Chen & Qiu, 1994). When I returned to China in the summer of 1996, a taxi driver in Beijing told me a story showed how differently the unemployed workers of state enterprises would respond to their current situations. Since early 90s, many state enterprises of poor business performance had to lay off their workers. Usually, these workers received a monthly allowance that



could maintain the minimum living conditions, such as food and clothes. The taxi driver was a laid-off worker. In our discussion, he looked down on his former co-workers who lost their jobs as well. He told me that to live on the minimum allowance was a terrible experience. One could do nothing interesting. However, those people seemed not bothered by having no work to do. They just played card games day and night to kill time rather than tried to do something interesting and meaningful. He told me that he himself had no way to withstand living on the minimum allowance and stayed at home all day long. So he borrowed money to buy a mini-cab and became a taxi driver. Then his life was much better.

Even in the old county seat of Dingri in Tibet, 45 miles from the highest mount of the world, Mount Zhumulongma, I met a Tibetan businessman in 1995 who held the similar opinions that those who have nothing to do would not necessarily search for working opportunities. He operated a hotel to serve tourists and other travelers. He also bought a small tractor to drive the tourists to a camp site at the hillside of Mount Zhumulongma and other attractions. He told me that there are many people in his village were very poor and had nothing to do all day long. However, they just would not try to do something to make their lives better.

The desire for urban life has some power to explain why people would enter non-agricultural section and the rural-to-urban migration. It cannot answer why some people become entrepreneurs and others would not. There are many ways to leave agriculture. To be an entrepreneur is just one choice. In Wujiang City, its rural enterprises had absorbed all local surplus labor. Anyone who would like to work in a local company could find a



job and live a comfortable life. A relative of mine, who was a rural entrepreneur and operated a small private business, told me that only useless people would be a worker in a local company. An able person always tried to do business on his/her own. Though this attitude was offensive to some people, it was common among entrepreneurs. My relative said that he never thought of being a labor worker in a local company.

Interestingly, the same person also provided me with an amazing story of rural people's strong desire for urban life. In China, a city resident status used to be a symbolic sign of urban life. If one had a city resident status, he/she did not need to work in agriculture, could legitimately live in a city, and enjoyed many privileges provided by the government exclusively to city residents. After the economic reform, though the material benefit associated with a city resident status reduced significantly, its symbolic implication remained very strong. The local government could use it as a reward to those outstanding rural entrepreneurs (e.g., Liu, 1995). At the time of this study, city resident status as an incentive to motivate rural entrepreneurs was less effective in advanced areas because it could be obtained without the help of local government. In the less developed area, this practice was still considered very effective. Dazu County of Sichuan Province belongs to one of the research sites. In a policy document on rural enterprises by the local government (Document No. 34 of 1994, Dazu CCP committee), it explicitly stated that if annual output of a company was over fifty million yuans, the whole family of the general manager could become legitimate city residents.

Because the strong symbolic implication of city resident status to rural people, when the whole society was swamped in business enthusiasm, the local governments



even used it to gather capital. In the case of my relative, he paid thirty-six thousand yuans (about \$4,500) for his family of three to have the city resident status of Baisu Township, Wujiang City. The amount of money he paid was roughly equal to the annual income of five or six labor workers in Wujiang City. The author had a discussion with him about what benefit he got from this investment. First, to live in the town was not the purpose. The town where he had the city resident status was only about a mile away from the village of his home. He had no intention to move to that town because his nice house was at the village. The second benefit, according to his argument, was that as a city resident, he no longer had the obligation to contract the responsibility land under the household responsibility system (HRS). Thus, he did not need to work in agriculture anymore. Then I learn that one could subcontract with other people to take care of responsibility land and the price was about two hundred yuans (\$22) per mu per year. My relative only had four mus ($\frac{2}{3}$ acre) of land. It meant that he needed to pay eight hundred yuans a year by subcontracting. Thus, the thirty-six thousand yuans could cover the cost of subcontracting for forty-five years. Actually, if he put the money in a bank, the annual interest would be more than enough to pay for subcontracting. For instance, the interest rate for one year fixed CD was about 10% in 1994. It meant that he would get thirty-six hundred yuans a year for interest that could cover subcontracting for more than four years. Obviously, there was a better way for not working in agriculture. After this explanation was eliminated, he insisted that a city resident status would be good for children to attend school and college. This explanation could be eliminated as well. For people with more money actually enjoyed advantages for getting their children better education after the

economic reform. In many cases, they could pay to have their children attend better school. At the end, we found no obvious material benefit to have that city resident status. A feasible explanation of his action should be psychological. That is, he could announce to other people: "I am not a peasant anymore because I am a legitimate city resident." This story shows that though one might have a strong desire for leaving agriculture, the decision to be an entrepreneur is caused by other factors.

A problem of those three explanations is that they only focus on the final goal state of one's behavior. That is, to be rich, to live an urban life, and to have a job. In discussing people's motives, a broader perspective should be taken. In addition to one's desire for a goal state, it is more important to analyze the desire to fulfill the behavioral requirements leading to the end state. The information in this respect would tell whether or not one would take and sustain a series actions that are necessary to reach the goal. This is particularly critical for analyzing a behavior process that requires the significant investment of effort before seeing any tangible sign of approaching the end, such as entrepreneurial activities.

The similar line of reasoning should be applied to the behavior of Chinese rural entrepreneurs as well. In addition to the outcomes, such as greater monetary reward and prestigious life styles, it is more important to focus on the intermediate steps that lead to those results. In most cases, the work in Chinese rural enterprises was very demanding, such as long work-hours, very physically challenging, harsh working conditions, and hazardous environment. The previous discussion also showed a variety of formidable difficulties a rural entrepreneur has to deal with. Thus, before any sweet taste of success,



one has to pass the tests by all those difficulties. If one is intimidated and would not take actions to overcome them, then the desire for a specific goal would remain as a dream but reality.

3. Achievement motive as a force to drive and sustain entrepreneurial activities.

David McClelland's model on the relationship between n Ach and entrepreneurial activities is a good example of how both the outcome and the intermediate process are addressed. As the conceptual analysis indicates, to achieve business success, one has to fulfill the basic role requirements of entrepreneurial activities. McClelland (1961) suggests that an entrepreneurial role requires people to set concrete standard of excellence, seek and respond to performance feedback, accept personal responsibility for the consequences of their actions, and would take calculated risks in order to maximize gain or benefit and minimize loss or cost. These role requirements fit the career interests of people who have higher n Ach. Thus, he contends that entrepreneurial occupations are particularly attractive to those people with higher achievement concern and they tend to perform better as entrepreneurs.

A focal point of this study is to see whether the theory of n Ach and entrepreneurial performance applies to Chinese rural enterprises. After the economic reform, the opportunity to practice entrepreneurship opened to almost everyone in China. Thus, it is a good opportunity to observe the individual differences in n Ach between those who entered and did not enter entrepreneurial occupations, and between more and less successful entrepreneurs.



There are several ways to tell outstanding entrepreneurs from the average ones. Because my field study was supported by the local governments, the officials at each research site arranged me to visit several enterprises. These enterprises were generally the showcases for local governments. They contribute significantly to local finance because of their outstanding business performance. Besides the official arrangement, I also have many chances to interview average enterprises through non-official channels. These enterprises are generally ordinary in terms of business performance. Another way to tell outstanding enterprises is to count the number of honor plates on the wall of management office. These plates are awarded by the government. The rule of thumb is that the better the business performance of an enterprise, the more plates it gets.

In the qualitative part of investigation, a main object was to collect evidence that illustrated the impact of achievement motive on entrepreneurial performance. The data collection procedure was specially focused on various behavioral incidents and the emotional expressions attached with them. For emotionally driven behavior is a good indicator of one's motive. Guided by McClelland's model, the information was collected in terms of the major role requirements of entrepreneurial activities, as discussed in Chapter Three.

Acting against a standard of excellence.

A popular explanation that rural people left agriculture and entered non-agricultural sector was to search for the better economic rewards (Odgard, 1992; Zhu, 1991; Fei, 1957; Zhao et al., 1993). Or put in a simple way, they want to make more

money. This proposition, from a psychological perspective, actually falls into a fundamental category of achievement motive. For pursuing better economic rewards implies actions against a standard of excellence. Here the standard is to maximize the return to one's effort, to improve efficiency, and to improve one's living. For people with higher n Ach are sensitive to opportunities of doing something better. Though not as simple and appealing as the economical explanation, the psychological one is closer to the essence why some but not all people were attracted by the opportunities for better economic reward and why some but not all entrepreneurs were successful in pursuing those opportunities.

According to my observation, the better entrepreneurs demonstrated in several ways about their desires of doing some better. First, they were sensitive to the information of higher standard in business activities and daily life, such as the technological sophistication of production process, advanced management approaches, the cleanness of work environment, and individual educational achievement. Second, they were curious about how higher standards were achieved and what they should do to attain those standards. And third, they took real actions to try those higher standards to see what the results would look like. In general, they showed eagerness to attain higher standards whenever it was possible. In contrast, those average entrepreneurs usually admire higher standards but showed little interests to understand the process of reaching higher standard and not to mention to take actions to try them. Their attitudes toward a higher standard usually like those: "It is good but I cannot do it." "I am not bothered by being at a lower level. As long as it works, I am comfortable with my current situation." "It takes too much

effort to catch up with high standards. I see no need to make the extra effort. Everything works fine at present." When talking about the action of trying something better and new, one could easily sense the excitement expressed by those outstanding entrepreneurs. Sometimes, their excitement was so strong that I felt they should calm down a little. On the contrary, the emotional reactions of average entrepreneurs on the similar issues were rather cynical and helpless, even though the current situation of their businesses might still be very good.

This tendency of catching higher standards was most evident in the speed of upgrading production equipment by rural entrepreneurs. Almost all rural enterprises used primitive technology at the early stage of development. They usually used either the obsolete equipment dumped by state enterprises or some locally produced low-tech machines. For those equipments were cheap and demanded less skill to operate. Then, in a very short period (7 or 8 years), many rural enterprises, which usually performed very well, upgraded their equipment in fast paces. Some had upgraded several times. A few outstanding companies even purchased the most advanced equipment in the world. In Anhui Township of Jinjiang City, there was a Hengan Women Products Company. This company was named by the central government as one of the star rural enterprises in the nation and the largest rural enterprise in Jinjiang City. It had an annual output value exceeding six billion yuans (about \$0.8 billion) in 1994 (Data from the company document). Its assets grew from one million yuans in 1986 to one hundred sixty million yuans in 1994.

When I visited the company, two new production lines were just put into a full scale operation. Those two lines were equipped with the machines imported from Japan that were the most advanced of its kind in the world. Because the machines were so sophisticated, the manufacturer just could not understand how come a Chinese rural enterprise had the interest to purchase them. They felt that the whole situation was more like a joke. They also had little confidence in Chinese rural people's ability to handle very sophisticated machines. Their logic was that, if people in that company were unable to handle the machines and caused many problems, their reputation could be ruined. Therefore, initially, the Japanese manufacturer was reluctant to selling the machines to the company, though it meant a big business to them. After many rounds of arduous negotiation, the company finally purchased the machines.

In my discussion with the people of that company, they listed several considerations for this upgrading decision. One was to have the company in a better position to compete with other producers. The second was to increase the variety of production and enhance the capability of serving different demands of the market. And the third was that they just wanted to be better. While mentioning the last point, they showed a mentality of "as long as we can afford, why not try the best." The first two points are the practical standards of better business performance. The third point reflected the mentality of its general manager. He was constantly in a mood of striving for better. Whenever opportunity was available, he would try it. This mentality was a critical factor in helping this company to achieve a very high growth speed. The entrepreneur used to operate a small factory and lived a comfortable life. Then he found that other people who

started businesses at about the same time were doing much better than he did. It stimulated him to try different business approach and started the current business in 1984. That decision proved to be the key for his success (Fu, 1992).

The same mentality can also be found in other places. I asked a local official about the driving forces of two outstanding entrepreneurs who were the top managers of the two largest companies in Shengze Township, Wujiang City. He told me that these two entrepreneurs always wanted their companies to be bigger and better. At that time, one of the two entrepreneurs, the manager of Yilong Company, was working on a major expansion project, a production center for fabric fine-processing. That is his No. 1 priority of the year. Thus, I was unable to interview him personally because he would not talk to people who were irrelevant to his project. The equipment for that center was all imported from Japan, which were the most advanced at the moment. The purpose of this project was to enter the market portion that the company was unable to enter previously because it lacked of capability in fabric fine-processing. The local official told me that the entrepreneur was always bothered by this weakness. Because Japanese had the strong capabilities, they imported Chinese material fabric for fine-processing and then exported to other countries, including China. In the process, the Japanese made hefty profits. The entrepreneur would not just sit and look at the Japanese making big money. He wanted a share of market too and decided to strengthen his company's capability of fabric fine-processing by the most advanced equipment in the world. Thus, instead of material fabric, he could export fine-processed fabric and give his company a much greater profit margin.

In Shengze Township, many enterprises had very advanced equipment. For instance, many textile companies purchased from Italian manufacturers, which produced some finest textile equipment in the world. I had a friend who was the business representative for a Italian company producing textile equipment. She told me that many of her client were rural enterprises. She was amazed that those peasant looking people would come and buy the most sophisticated machines in the world. A communication cable factory operated by Yanshan Village purchased very advanced equipment from Swiss and other countries. Its technological sophistication surpassed that of many state enterprises. Many visitors were surprised when they personally saw the equipment. Most people, include myself, used to hold a stereotypical view that rural enterprises were equivalent to primitiveness. After I visited these companies, my mind changed completely.

Compared with the eagerness of those outstanding entrepreneurs in searching opportunities for excellence, there were also entrepreneurs who were not very enthusiastic for improvement, even though the opportunities were readily available. In Anhui Township, I also visited a small garment factory. The whole garment industry was slow at that time in Jinjiang City. However, its business was excellent because it had several popular products. When I asked the entrepreneur whether he planned to expand business and the response was "no." He would rather subcontracted production to other companies to meet the demands. I asked why. He replied: "The current size of company is good enough. If the business is too busy, I can do subcontracting. I myself do not want the further expansion of my business." This is the exactly opposite way of reacting to

opportunity as what the entrepreneur of the woman's product company would do. Those two companies were at the same township.

The concern for excellence can also be displayed in detailed management activities, not limited to major business decisions. In Fengzhu Bleaching Dying Company, I learned a story about a severe conflict between the general manager and one middle level manager. The story started with that the middle manager noticed a hole on the pavement of the workshop. He knew that this hole could cause some trouble for production and it was a safety hazard. Thus he took initiative to cover that hole with a piece of steel plate. His action did solve the problem practically and temporarily. The workers were not bothered by that hole. However, this approach made the general manager very angry. He was so annoyed by that patch. He thought it was very ugly. Also it did not eliminate the problem. The hole was still there and it would create trouble sooner or later. He wanted the problem to be fixed completely and beautifully. After being taught a very unfriendly lesson, the middle manager did what was demanded by the general manager. Nonetheless, he was not convinced that his approach was wrong. He told me that practically, his approach worked as good as that of the general manager. Anything beyond that was wasteful. So we can tell that an important cause for the conflict was that the manager demanded for a higher standard of excellence whereas the subordinate was satisfied with a minimum standard of getting by.

Those rural entrepreneurs not only demanded higher standards but also expressed excitement for any improvement. The manager of the packaging material factory in Shengze Township told me that they used to burn the products that did not meet the

quality standard. One day he had an idea that why not try to recycle those products. So he and other people chopped those products into small chips and mixed with raw material. The new products produced in this way were in very good quality. No one could tell that they used recycled materials. Thus, they reduced the cost of production and the amount of pollution. When talking about this improvement, the manager was very excited and proud of his idea. His happiness was so contagious and I myself felt very happy too.

In explaining some outstanding entrepreneurs' effort to pursue excellence, many people held a view that they do so because they had accumulated significant technical and financial strengths. Thus, they knew how to do it and could afford to do it. While those people were right that purchasing world class equipment did require a company to possess substantial technical and financial strengths, an entrepreneur's desire for excellence was not formed after his company achieved those strengths. As a matter of fact, such a desire is a critical condition for those strengths to be built up. Many entrepreneurs showed their dreams for higher standards when their companies were very primitive and haunted everyday by survival crisis, or even when they were just ordinary labor workers in various fields. In 1987, the general manager of the bleaching dying company in Jinjiang City started the company with the assistance of the chief engineer from a state research institute. The initial plan was to build a small factory. Before the construction started, he told the chief engineer his intention that someday, he would make the company a joint-venture with foreign capital. At that time, people's perception of joint-venture had a narrow focus on the cooperation with advanced Western companies. Thus, such an intention meant that the entrepreneur wanted the company to reach very

high level of technical and financial strengths in a short period. Initially, the chief engineer felt very funny about this idea. For between the primitive factory they were working on and the world-class production facility, the discrepancy was just too big to link the two situations together. Nonetheless, he did incorporate this idea into the overall plan and reserve enough space for the future development. At the time of my visit in 1995, eight years later, it was indeed a very large and very advanced company, though not necessarily a joint-venture with a Western company. If the general manager was satisfied with a small workshop, then his company would never grow to its current scale.

In Tongliang County of Sichuan Province, I met an entrepreneur. He operated a very small factory to produce shampoo and hand soap. His factory only had two rooms. The production was very primitive. In our discussion, he frequently mentioned some famous brands of shampoo products, such as Head & Shoulder. He told me that his goal was to catch those brands someday. He visited many famous cosmetic factories in China to learn the production process. What he attempted to do was to accumulate his strengths through the local market where he had some advantages. Then he would try to expand his business into a broader market. It is hard to judge whether his business could grow to the scale as he dreamed because there were too many other factors had to be considered. However, he did show some psychological readiness to catch any opportunities that could allow him to try his dream and was actually making effort in the direction of his dream.

On the contrary, I visited several companies with significant technical and financial strengths due to the superior external conditions. Their top managers showed little enthusiasm to make their companies excel. For instance, a cement mill in Taoyuan

Township, Wujiang City, had substantial technical and financial strengths. Its initial investment in 1986 was six million yuans (about \$0.8 million). Very few rural enterprises could enjoy this level of financial strength at the early stage of development. Nonetheless, in my discussion with the general manager, it was evident that his actions in business operation were primarily reactive to the arrangement of local government. I could not get any evidence showing that he had the enthusiasm to take initiative and improve business performance. At the time of my visit, the company was undergoing a major expansion project. That project was completely initiated by a local official and the manager simply followed procedures. In a strict sense, he was a true manager but an entrepreneur.

Of course, an entrepreneur's enthusiasm to expand business has to work with optimal external factors to produce the expected outcome. The general manager of a cement mill in Tongliang County was an outstanding entrepreneur. His company was a star enterprise in Chongqing Metropolitan Area in which Tongliang County was located. During the interview, I was impressed by many of his spontaneous expressions about the desire to perform against a standard of excellence. For instance, he told me that he would feel so annoyed seeing people to do low quality jobs. If he planned to do something, he had to do it right and in good quality. That was the reason that his company had good business results. When I asked whether he would expand his business, he replied that he had no plan to expand the capacity of the cement mill because it already reached its optimal scale of production. Further expansion would not be cost-benefit efficient. Then I asked whether he would expand through diversifying his business by setting up new companies in other fields. He replied no. I asked why. He explained to me that because

his enterprise was under collective ownership, the local government had direct control over it. He did create several other businesses but the local government took all them away from him and made each of them as an independent entity. The reason for the local government action, explained by the manager, was that the number of enterprises within its jurisdiction had important implication in evaluating the performance of local officials by the higher level government. Thus, the officials would try to increase the number of enterprises under their control though it really made no business sense. The entrepreneur stopped his effort to expand his business because everything he created was taken away by the local officials.

In our discussion, those outstanding entrepreneurs often showed a mentality as what Mao Zedong proposed: "What others can achieve, we can achieve. We can also achieve even what others cannot achieve." It used to be a fashion among many Chinese intellectuals to contend that it was impossible for China to surpass the technological advancement and economic achievement of the Western nations. This mentality was still very strong in 1995 when I did my field study in China. However, I never heard any talks that China could not catch the world class standard by those outstanding rural entrepreneurs. What I frequently heard was that "we had to surpass the world standards and we were confident in doing so. If we could not surpass them, then we were going to be the losers in competition. But we did not want to be losers. What the Westerners can do, we can do it too. It was just a matter of time and that would not be long." Equipped with such mentality, many entrepreneurs showed that they would not withdraw while facing challenges. In Shengze Township, I met a woman entrepreneur. She was a star in

that town. In our discussion, she said that the business was more and more difficult and the year of 1995 would not be a good one. Because I noticed that she was close to her 50 or 60, I asked her whether she had a plan to retire before the situation became worse. To my surprise, her reaction was very emotional. She repeatedly said several "No" and told me "It is unthinkable that I would withdraw when the company is in difficulty. I will stay tough and fight the difficulty. After everything was put in a good shape, then I might consider leaving."

The enthusiasm for excellence often spilled over to non-entrepreneurial issues. I learned a story in Shengze Township, Wujiang City, about a conversation between the visiting American business people and a Chinese rural entrepreneur. The company is one of the two largest enterprises in Shengze Township with an annual output over one billion yuans in 1995. The American businessmen were impressed and puzzled by the magnificence of the company's office building. They asked the rural entrepreneur why he needed an office building like that. He replied that he was concerned with the high quality of products. Then the Americans asked why the magnificence of office building had something to do with the high quality. The rural entrepreneurs found it very difficult to answer this question. It was indeed hard to find a direct relationship between the two. My understanding was that there were some unspoken words in his reply. His idea of high quality was not just restricted to the quality of products. It reflected his mentality to demand the best in every aspect whenever it was possible. He would demand the best possible office building if he was going to build a one.

Among the outstanding entrepreneurs I interviewed, many showed such a mentality of demanding high standards in all aspects. One entrepreneur would even personally teach the receptionists to receive guests nicely, for instance, what to greet guests, how to pour tea, and how to say good-bye to guests. The general manager of Fengzhu Company in Jinjiang City demanded that the office building should be kept as clean as a five-star hotel. Also in the dorm areas, no piece of paper was allowed to stay on the ground. He told me that he knew those were impossible standards to achieve. However, he insisted and I agreed with him that if the standard of a five star hotel was demanded, the office building would be much cleaner than that if only the standard of an ordinary peasant family was imposed. Remember that those enterprises were in real rural areas and those entrepreneurs were true rural people. Rural people were usually regarded as not sensitive to hygiene conditions and that was generally true. Therefore, these actions should be regarded as significant improvements.

Take calculated entrepreneurial risks: Risk taking and risk reduction.

Moderate uncertainty in process and outcome is a distinctive feature of entrepreneurial activities (Sutton, 1954). It implies the possibility of failure for entrepreneurs' actions. Thus, one's willingness to take calculated entrepreneurial risk is a critical requirement for being an entrepreneur and persisting on entrepreneurial activities. Nonetheless, it is important to make a distinction between taking calculated entrepreneurial risk and risk taking. The latter is to simply take risks and depend on luck for success.

On the other hand, taking calculated entrepreneurial risk is a much more sophisticated behavioral process and has several distinctive characteristics. First, it is one's pragmatic effort to be successful and make improvement rather than desperate or careless attempt. The goal to take calculated entrepreneurial risk is to achieve business success or improve business performance. It is not to take risk for its own sake and treat the behavioral outcome as a by-product caused by external forces. Consequently and secondly, true entrepreneurs would not take extremely risky actions in which individual actions could make little difference in outcomes, no matter how much individual efforts are invested. McClelland (1961) stated moderate risk taking as an entrepreneurial requirement. Atkinson (1966) indicated that situations in which the probability of success is moderate (50%) were the most attractive to people with higher n Ach. In those situations, there are risks but outcomes are not completely determined by the external force. Individual effort could make differences. They are attractive to people with higher n Ach because making improvement through personal effort is a distinctive feature of achievement incentives. Achievement oriented people want to see that their personal efforts produce tangible outcomes. If a task is too easy or too difficult, there will be little information to determine how individual effort makes difference. Third and a very critical feature of taking entrepreneurial risk is that risk taking behavior are always accompanied by various protective and risk reduction actions. This feature is a logical extension of achieving success through individual effort. For it explains why individual effort can make difference in a situation of uncertainty. The protective and risk reduction actions

may include contingency plans in case of unexpected difficulties, racing with the challenges to improve the odds of success, creating safety net, and so forth.

In popular opinion, people's choice of being an entrepreneur and the success of some entrepreneurs are often explained as the result of simple risk taking. Generally, the popular explanations depict that people become entrepreneurs because they are risk prone and those who are very successful because they dare to take big risks. This explanation is not just accepted by ordinary people. Entrepreneurs themselves also used it to explain their or others' actions.

In Cizao Township of Jinjiang City, an entrepreneur named Wu Yuli, who operated a small to medium size factory producing ceramic building materials, explained to me why the largest ceramic company in the town, Huiyuan Company, was so successful. The primary reason, as he put it, was that Huiyuan's manager dared to take big risks by operating the business on a huge amount of borrowed money. Wu thought that Huiyuan manager's action was too risky because he borrowed too much money, far more than the asset of the company. Though he agreed that it was a right approach to operate on borrowed money, he said he would not do that if there was uncertainty whether products could be sold quickly. I heard a similar story in Shengze Township of Wujiang City. Fan Wenying was a model entrepreneur and the manager of a silk company. In terms of size, her company was at the mid-upper level but much smaller than the two giants in town. She explained that there were opportunities for expansion two years ago. However, she was conservative compared with the managers of those two giant companies. They made brave business decisions to expand quickly and she used a safer

way of slow development. For instance, the entrepreneurs of other two companies imported equipment that was expensive but state of art and she rather settled down with domestically made equipment to save money. Consequently, the other two companies gained a great competitive edge in the markets and grew much fast than hers. Many rural entrepreneurs I talked with also considered themselves as risk prone. They thought that many people would not enter business occupation simply because they were afraid of risk.

In terms of my observation, the risk taking behaviors of rural entrepreneurs are much more sophisticated than those simple explanations. People often notice that an entrepreneur needs to make business decisions appeared to be very risky. But there is another side of story. Before taking a seemingly risky business action, an entrepreneur in a true term would make thorough effort to calculate the risk, as indicated by McClelland (1961). The calculation process includes collecting critical information, making decision on available information rather than by guessing, preparing contingency plan, taking preventive actions to reduce the possibility of failure, and limiting the risk at a moderate level. After all those safeguard measures, a risky business decision may not be very risky anymore. That outsiders would think a business decision by an entrepreneur as extremely risky because they often know little about all other action plans around that decision.

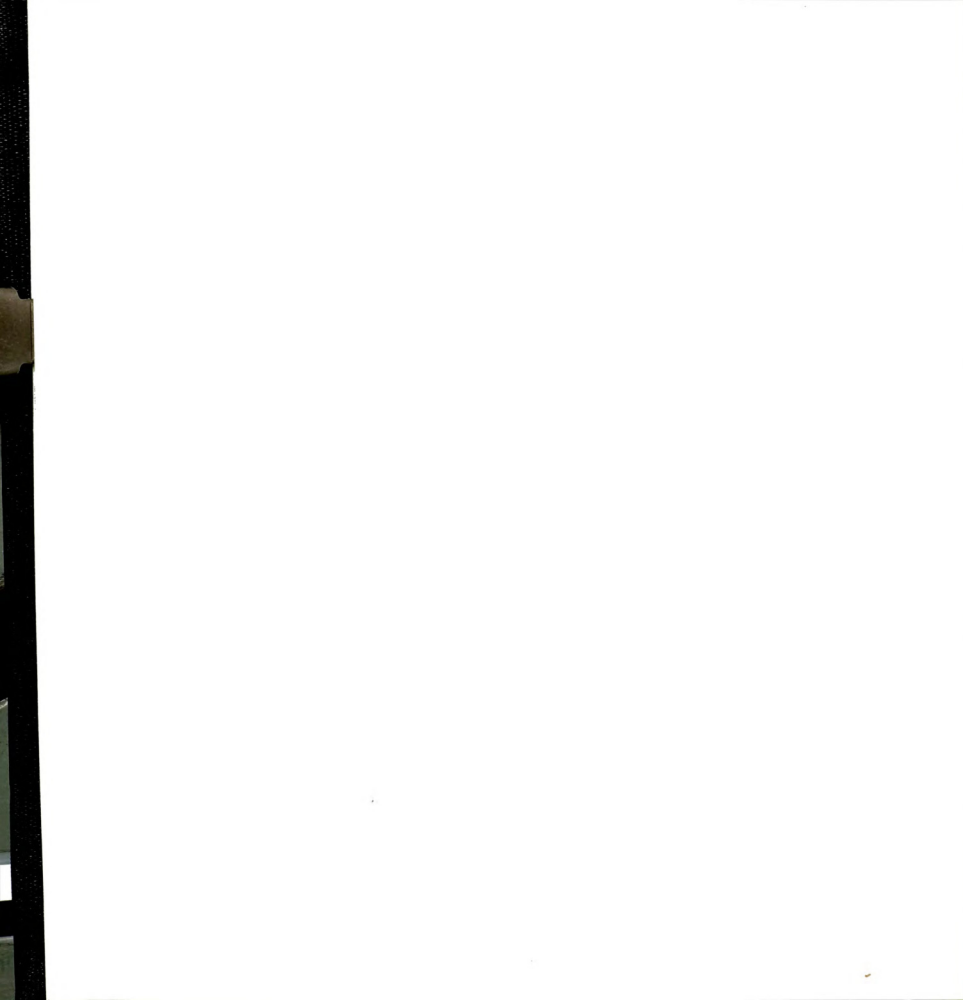
The entrepreneur of Fengzhu Company in Jinjiang City operated his company on a huge debt, about 40 million yuans (roughly five million dollars at the exchange rate of 1995). Though I do not have concrete evidence, by talking with various people, I think that the debt should surpass the value of its asset. Many people thought this practice as

extremely risky, because if the markets changed and the demand declined, the whole company would simply be eaten up by the interest. Or if government changed policy and the bank withdrew the loans, the company could be destroyed as well. While concerned about the magnitude of risk, few noticed that the entrepreneur had taken various risk-reduction actions. On one hand, he made great efforts to assure a strong demand for the production. I noticed that several approaches served this purpose. The first was to upgrade the production equipment that gave the company a competitive edge in the market. He bought equipment from Taiwan and Singapore that was much more technologically advanced than those used by other similar companies. Second, the quality of production was greatly emphasized. Better equipment is one measure in this regard. Other approaches included improving management, monitoring process, selecting high quality workers, and maintaining a high moral of work force. Among many entrepreneurs I interviewed, the manager of Fengzhu Company is a unique one for he spent enormous resources to create a favorable working environment for labor workers, for instance, dorm facility, dining facility, and entertainment facility. Third, strong marketing effort was made by the entrepreneur. When I visited the company, it was operating on zero storage. That minimized the time of capital circulation hence cut the interests on loans significantly.

He also made great efforts to create a safety net for the company by establishing good relationship with the local government and business partners. The good relationship with the local government could provide political assurance to help secure the supply of various resources. Because his company was big and had an excellent performance

record, it is an important asset for the local economy and political capital for local officials. Thus, it was at the interest of local economy and local officials to help it maintaining a smooth operation. During my stay at the company, I heard many stories that the local government helped the company to solve many practical problems. In one case, the local government persuaded another company to give up a dorm building because this company needed more dorm space to accommodate its growing labor force. This deal would be very hard to reach if the local government did not intervene. He also made great effort to form good relationship with business partners. During my two months stay, I saw that the entrepreneur showed warm hospitality to the visiting business partners. He also kept an excellent credit history with them. When we discussed his relationships with his business partners, the entrepreneur was confident that even if he was in temporary financial difficulty, other companies would lend him a hand to help. For instance, one dying material company assured him that they would guarantee the supply though he had to delay the payment.

Building relationship among business partners is an important strategy used by many rural entrepreneurs to reduce the risk. The director of a chemical dye material factory in Taoyuan Township of Wujiang City is an outstanding entrepreneur. His background was different from most entrepreneurs I interviewed. Before working in the managerial position, he was a teacher in an elementary school. When I asked him about his most important strategy in business operation, He replied: "Making friends." He told me a story how friends helped his business to avoid risk when difficulties came. At one time, a critical supply was in severe shortage. Many companies that produced the similar



products as his company did were in trouble to maintain production. But his company was not affected because he had a very good relationship with the producer of the key material and the latter guaranteed supply to his company. Another entrepreneur even said: "As long as I have friends, I can do business." Of course, many other actions were also taken by those entrepreneurs. Nonetheless, establishing relationship with the sources of critical supplies is a strategy widely used to reduce the risk in business operation.

Racing with risk is also an effective approach for risk-reduction. Acting quickly and decisively after a business decision has been made is a distinctive feature of outstanding rural entrepreneurs. When Fengzhu Company was constructing its production facility in 1987, the entrepreneur tried all imaginable approaches to speed up the process. For he understood that if the production started one day ahead of schedule, he could start to make money earlier and pay back the loan earlier. Thus, on one hand he pushed very hard on construction. At meantime, he started to open market channels for the production. What surprised the chief engineer who helped the company was that the manager already got order from the customers when the whole project was only half finished. Similar stories also happened in other companies. When Hengan Women's Product Company decided to build new facility, the process of getting permission from the local government was slow. Then the entrepreneur decided to start construction without permission for waiting meant the loss of money. After the project started, they negotiated with the government and had permission issue settled. If those entrepreneurs acted slowly, then many opportunities could be missed and their businesses would be in danger.

A common risk faced by many entrepreneurs in their business operation is that they might not be able to collect the money that other people owe them. There are several reasons for people not to payback their debts. One is that people might bankrupt and have no money to payback. Or they would delay payback by taking a free ride on others' money. Or they never thought of payback. One entrepreneur told me his philosophy about this risk. He thought that this phenomenon was a reality. If one wanted to do business, he had to live with it. It was impossible to eliminate the phenomenon completely, particularly during a period that everything was changing and rules had not been established yet. However, one could minimize risk by a thorough calculation based on information from various sources. The fundamental goal of business was to make money. As long as one can make profit, the money lost due to bad debt was just part of the cost. It was totally acceptable. He said, if he could make five million yuans a year and lose three million due to bad debt, there was still two million net profit. So why not take a chance to try. If one would not lose any money from bad debt, he could make little money as well. Therefore, a loss of three million yuans, which would be viewed as a huge risk by other people, was in fact an opportunity of making two million yuans profits for an entrepreneur after a thorough calculation.

The same person also told me another type of risk. He said he would not get a loan from banks that are all controlled by the government. Although the bank interest rate was relatively low compared with that of an underground credit network (usually 2% to 3% per month), there are many kinds of implicit cost one has to pay in order to get a loan. These costs discount the attractiveness of bank loan significantly. To get a bank loan, one

needs to go through various forms of bureaucratic procedures disliked by entrepreneurs. On the other hand, the service of those underground network is very good. Usually, they would deliver cash to your home the second day that the loan is made. The only risk to get money from using the service is the problem of counterfeit money. As an implicit agreement, he could not ask the people of underground network to take back counterfeit money. Counterfeit money is a serious problem in China that develops synchronously with the economic growth. He told me that he had accumulated about ten thousand yuans counterfeit money. His strategy to deal with this type of risk is the same as what just discussed. He said, time is money. By using an underground network, he could save a great deal of time for getting a loan. This also enables him to use the money very efficiently. Because there are always funds available, he could wait until he really needed money. There is no need to prepare the funds long before the transaction. Compared with the saving due to these benefit, the risk of counterfeit and the higher interest rate are really small costs. Nonetheless, another reason that he would use an underground network, as he told me, was that he could get a reasonable interest rate. In order to get the special treatment from the loan shark, one had to have a good credibility. He had it and that increased the benefit of using the loan shark.

The purpose of citing the above cases is by no mean to imply that these entrepreneurs did not take any risk. The risks were real in all cases. The possibilities were real that no one would pay-back their debts and all the money from the loan shark was fake. In the case of Fengzhu Company, the danger did exist that if the demand declined, the production process could not be maintained then the company would be eaten up by

the interest. Facing these risks, these entrepreneurs neither passively withdraw from actions nor act blindly and let luck to decide the outcome. Instead, they make thorough calculations and take various supplemental actions to increase the odds of success. Then these risky actions become very likely to bring economic reward. As true entrepreneurs, they are neither scared nor discouraged by risks, nor try to ignore the risks. Instead, they would try to find out the potential benefits associated with the risks and the possible actions that they could take to reduce the chances of failure. Then they would make their plans of action if the risks are not severe and the benefits are significant.

Among the people I interviewed, some showed different reactions to the risks in business operation. Those people were usually less successful entrepreneurs. In our discussion about risks, they primarily focused on the potential losses and paid little attention to the potential benefit and the possible actions they could take to reduce the risks. It was very difficult to have them discuss the bright side of taking some risks, even though I tried many times to solicit their opinions. When I was in Miluo City of Hunan Province, I had a meeting with five entrepreneurs. They clearly show aversion to any risks. While talking about their future business plans, they were overwhelmed by the concern of maintaining their current positions. They thought that it was not easy for them to get where they were now and were afraid that any expansion plan could jeopardize what they had achieved.

They told me a story about the failure of a local company. The company was set up to produce a material that was the research finding of a state research institute. Before the construction started, people conducted a market survey. The survey results showed

that there were no other factories producing the same material and the demand was high. Once the construction was completed and the factory was ready for a full scale production, they were surprised that the material had been produced by more than one hundred companies. The Milou factory lost in competition and had to close down. They told me this story was to show how risky a business expansion plan could be. Thus, the best way was to stay where you were and not to try anything ambitious. I tried to get them to discuss whether any mistakes were made by the management that might contribute to the failure, such as the construction was not fast enough to outrun other competitors; the quality of products was less competitive; and the marketing effort was not intensive enough. My attempt proved to be little effective because they showed no interests to look into these issues. It seemed difficult for them to think in a way of "The action costs me one yuan but can bring me two yuans so that I can make two yuans at the cost of one yuan and have a net profit of one yuan."

In explaining rural entrepreneurs' willingness to take risk, many attribute to the fact that they are very poor and have nothing to lose. To some extent, this argument is reasonable when rural entrepreneurs possessed little wealth. Possessing nothing can be an advantage sometimes. As what Mao wrote: "a blank paper can be used to paint a beautiful picture." The fact that Chinese rural people were very poor and at the bottom of social hierarchy could provide a partial explanation why so many rural people entered the non-agricultural production at the early stage because it significantly discounted the danger of great uncertainty. Because they were poor, the loss due to failure was not significant. Because they were peasants, they could feed themselves in case their businesses failed.

The mentality of people in Xiaogang Village, where the household responsibility system was initiated, demonstrated the impact of this factor vividly. It was a tremendous political risk to try household responsibility system at that time. However, what people thought was: "We are so poor. It makes no difference whether we live in a prison or in a very poor family. Our lives cannot get any worse because of our actions. Whatever we are going to do improves our lives."

Once the initial buildup stage passed, however, this explanation loses its power. For all the entrepreneurs in this study, they were more or less well-established. They lived comfortable material lives and enjoyed privileged status in local communities. Some people were even famous nationwide. If they failed because of the risky decisions they made, the losses would be real and substantial. Therefore, the difference in individual characters should account for the difference in risk-taking and risk-reduction behavior.

Being sensitive to performance feedback.

As an integrated part of concern for improvement and excellence, one needs to monitor the behavioral outcome and be sensitive to performance feedback. Performance feedback signals whether one is in a right course of making improvement and attaining excellence. If not, it suggests that proper adjustments should be made to correct the course of action. Most of the rural entrepreneurs I interviewed emphasized the importance of adjusting their actions in terms of the outcome. However, individual difference existed in terms of how they responded to performance feedback. Some were forced to do so because of the pressure from the markets, Some were spontaneously to do so, and some

entrepreneurs were just insensitive to this type of information. Based on my observation, the difference in responding to performance feedback often corresponded with the difference in business performance.

For outstanding entrepreneurs, once they noticed that their actions were off the tracks for being better and making improvement, they would be driven by some emotional urge to make corrections and feel very uncomfortable if they were not in such a behavioral process. The general manager of Fengzhu Bleaching Dying Company in Jinjiang City had an interesting philosophy. He said that no one could avoid making mistakes. Nevertheless, there were different ways of making mistakes. Some people made very few kinds of mistakes in their lives because they only worked on limited numbers of things and rarely tried on something new. But they would repeat the mistakes many times. He told me that he looked down on those people because they could never make improvement. He classified himself as people who would make many kinds of mistakes because they constantly kept trying new things, but rarely repeat the mistakes. Once a mistake was made, those people would make effort to find out the cause of mistake and the way of improvement. Next time, they would use improved approach to handle the similar situation and the odds of success increases significantly. Those people also demonstrated eagerness to change their behavior in responding to performance feedback. For them, a mistake is an opportunity for improvement. Logically, there can be a third type of people. For them, a mistake is the signal to escape. They would make many types of mistake in their lives because they constantly try to work on new things. However, once they make a mistake, they simply give up what they are working on and change the

direction without making effort to find out the cause of problem and the way of improvement. Those people could rarely achieve anything because the possibility of reaching success without making mistakes is almost zero.

Furthermore, the manager not only presented his idea in a very convincing way, but also and more important was good in practicing his philosophy. He said that he judged a good or bad behavior solely on the outcome. The intention of behavior was less important if not irrelevant. If an intention was good and the outcome was bad, then the behavior was bad and should be changed. He applied this logic to both his employees and himself. During my two-month stay in his company, I witnessed several incidents that he changed his own behavior to improve outcome. One example was that he used to be losing his temper easily and screamed at the middle managers for anything that he thought was inadequate. According to his explanation, his intention was to use his temper as a tool to create a situation in which everyone had to strive for excellence. Also he told those at whom he shouted that he did so because he trusted them and wanted to help them to improve. For those whom he did not trust, he would never waste his energy to shout and simply let them go. Although his rationale for his behavior sounds very reasonable, this approach nonetheless hurts the self-esteem of middle management greatly and people started to keep distance from him. He quickly noticed this. I discussed with him several times about the pro and con of this approach. I thought and he agreed the situation was about to reach the limit that others would not tolerate his bad temper. Then he quietly changed his behavior. Many people in the company noticed that the general manager had not lost temper for a quite long period.

For good entrepreneurs, if a confirmed mistake has not been corrected, they would feel very uneasy and would try any means to fix the problem. During my visit to a garment factory, I noticed that entrance of the workshop was locked up. I could only tour the production site after the manager instructed the doorman to unlock the door. Initially, I thought that this measure was to prevent people from stealing because many other companies did the same thing for this purpose. The manager said that was not his purpose. He did so to prevent workers from leaving the workplace during work hours. It happened frequently that workers would leave the workplace to buy food, go to sleep at dorm, or just walk around. He himself was bothered by this practice because it treated workers as prisoners. He told me he was embarrassed when I asked about the locked door and he wanted to do something about it. Then twenty days later when I visited the company again, the door was unlocked and the manager was very proud of his action.

Compared with outstanding entrepreneurs, several average entrepreneurs I interviewed responded to problems in their business operations in a different way. They might notice problems and understand the causes but did not show a strong emotional urge to correct problems. They just watched passively and let the situation become worse and worse. In Cizao Township of Jinjiang City, an entrepreneur of a ceramic tile company told me that their company was in a big trouble due to a management problem. The wife of general manager extensively interfered with business operation. Though she understood very well about the production process, her style of management gave other people hard time and made the management team in disarray. Many able technical personnel and skilled workers would not withstand her insulting style and quitted.

Consequently, the quality of products was poor and the cost of production high. The entrepreneur told me that their equipment was much better than other companies. However, other companies could sell their products at lower prices and make profits. They had to sell at a higher price and still lose money. Everyone knew the cause of problem. But the general manager would not take action to fix it and the company kept moving downward. In contrast, the garment factory just mentioned experienced similar problems due to the interference of wives in management process. The company was operated by four brothers. Facing these problems, the four brothers quickly decided that all their wives should withdraw from the management. Then the problem was fixed.

These examples show that knowing the problem and actively taking action to solve the problem are two different things. The latter often differentiate good entrepreneurs from ordinary ones. Ordinary entrepreneurs might understand the problem but lack of enthusiasm to act. Then a small problem could grow into a big trouble. If the market conditions were favorable, they could conduct fairly good businesses. Or the accumulated problems could destroy a company. In Yueyan City of Hunan Province, there used to be a company supplying TV accessories for state enterprises. The Chinese TV industry in 80s was in a fast pace development. It went through from small screen black-white TV to small screen color TV to big screen color TV in a short period. The market for TV accessories changed in fast pace as well. When the accessory market started to change again in early 90s, there were signs that the type of accessory produced by the company would be obsolete. Nonetheless, the management of that company did

not take any actions to deal with the situation. Then the market changed significantly and the company closed down.

A state enterprise, the Chinese Standard Sewing Machine Group, formed several horizontal cooperative enterprises in several places for increasing its production capacity. When a cooperative enterprise was set up, the mother company would assign it to produce an existing product as a start point. One cooperative enterprise was set up in Wanpin Township of Wujiang City. Its general manager understood that if the company wanted to survive and grow in competition, it had to develop its own products rather than rely on the mother company. Thus, they made great effort to design, produce, and market new products and achieved great success. For other cooperative enterprises, the management also knew that they needed to develop new products but they never acted. The manager of the Wanping factory told me a story. The product assigned by the mother company to another cooperative enterprise became obsolete in the market. Its management knew that the Wanping factory had developed several products that were all popular in the markets. So they asked the Wanping factory to give them a product and did get it. Two years later, the manager of the Wanping factory found out that the product he gave to that company was still the only product it produced and that product was going to be obsolete very soon. Also its management showed no sign to take actions to improve the situation. The manager of the Wanpin factory predicted that they would come to him again and asked for products once no one would buy their current products but he would not give them any product because it was just useless to help them.

A state of restlessness that can only be calmed through entrepreneurial activities.

Besides behavioral expressions that matched specific achievement incentives, many entrepreneurs I interviewed displayed a general tendency that they would actively involve in entrepreneurial activities as driven by achievement motive. They would be in a state of restlessness if not in such a process. Or in other words, entrepreneurial activities were the most effective channels in releasing their internal energy. They described their feelings under such a circumstance as hunted by some unknown. Or in McClelland's term, they were infected by a certain type of "mental virus." The infection energized and drove them to become entrepreneurs (1966:29). A typical story in this regard was from an entrepreneur I met in Tongliang County who operated a brick mill. He had a terrible business failure a year ago. Fortunately, he managed to save much of his capital and quit without significant loss. Then, he felt that business was too risky and work was too hard. It should be the time to enjoy the life since he had earned enough money. A traditional way of enjoying life in China is to eat well, drink well, dress well, and play all day long. That was exactly what he did after quitting the business. He played card games day and night and gambled in the process. Contrary to his initial expectation, he felt no joy but unbearable for living like that. He told me that his brain was so empty and his mind was so nervous. No matter whether he won or lost money in card games, he felt terrible. At night, he could not even fall asleep. At the end, he decided to stop this kind of life and to enter the business world again. Then he found an opportunity in Xiaoling Xiang of Tongliang County and started the brick mill. He said though he had enough money, life

could be a living hell if one had nothing to do. A person had to do something to live comfortably.

Several entrepreneurs I interviewed had experiences of running more than ten other businesses before running their current businesses. Those attempts generally were not successful. I interviewed an entrepreneur in Yinling Township of Jinjiang City who operated a business of trading cloth materials. His previous business experiences included being a butcher, producing clothes, operating a small restaurant, smuggling cloth materials, and running a garment factory in Fuzhou City of Fujian Province. All these activities did not make him a fortune. His latest business attempt was to sell domestically made cloth materials to the garment factories in his hometown, Yinling Township. This time, the business was very successful and he made a lot of money. At the time when I interviewed him, the garment industry was in a difficult period. His business was sluggish too. Thus, he decided to stop the operation temporarily and look for sign of new opportunities. Though he already made more than enough money to live all his life at a very high standard, he still wanted to do something. In our discussion, he never showed any intention of quitting business and just enjoying a good life. A frequently used phrase in his talking was: "A person has to do something." At the time when I left Jinjiang City, about twenty days from the interview, my friend, who arranged the interview, told me that this entrepreneur had started his new business again. The manager of bleaching dying company had similar experience as well. Prior to his current business, he had more than ten business attempts that were all not very successful. He was reluctant to name all of

them. At least I know that he ran a farm with others in the Southern China, a small paper box factory even before the cultural revolution, and a small needle-knitting mill.

A distinctive feature of such a state of restlessness is that when those entrepreneurs were poor, they constantly searched for opportunities. When they became rich and did not need to worry their living, they still search for opportunities to work on some projects and would not like to sit idle. When I interviewed a star entrepreneur in Taoyuan Township of Wujiang City, he complained to me that it was very difficult to conduct business and really wanted to stop doing it. Then I asked: "what would happen if you actually quitted business and stayed home to enjoy your life?" He smiled and replied: "I am going to be mad and probably come back to my company in two seconds."

In contrary, for those who did not actively make effort to practice entrepreneurship, they usually did not express restlessness when there was nothing for them to do. The stories cited in the previous section showed that for some unemployed state enterprise workers, they could play cards all day long to kill time but doing nothing else. By contrast, that kind of life was unbearable for the owner of the brick mill even though he did not need to worry his living. The taxi driver demonstrated a character of many successful entrepreneurs. He could not sit idle at home and waiting for some miracle happen, as what his former co-workers did. He had to try working on something to improve his life. My friend told me stories that some people in Shanghai City who made fortune in the stock market. Then they thought they had made enough money. So they quitted doing anything, bought nice houses, and stayed at home to enjoy lives. Real

entrepreneurs just could not live a life like that. No matter how much money they have, they still want to work on some projects.

There is another form of restlessness that clearly differentiate outstanding and average entrepreneurs I interviewed. For outstanding entrepreneurs, when we were talking about their business plans, it was very easy for them to talk about that the new ideas they would try the next year, how many new ideas they tried before, what were the results of those previous attempts, and what could be the outcomes of their new ideas. They often got very excited for talking about their new ideas. This form of restlessness showed a proactive tendency, in comparison with a reactive one. For instance, in Meiyang Township of Wujiang City, the manager of a high-tech rural enterprise explained to me that he would try a new incentive plan to attract more technical personnel. A manager of garment factory in Jinjiang City said that he would try producing luxury suits the next year. The plan of a sewing machine company in Wanning was to expand its business. On the other hand, for those average entrepreneurs, I rarely heard them to spontaneously talk about any new plans for their businesses. Even when I asked whether they had any new ideas for the next year and the future of their businesses, they could not give any specific answers. Also they did not show any enthusiasm to try new ideas in their businesses. They would rather pray for no change in the environment so that they could keep the existing way of business operation. For instance, in Yueyang City, the manager of a chemical company responded to my inquiry of its plan for the future was to hope that the market would not change. In my discussion with non-entrepreneur people, particularly those in the urban and state sector of economy, the passive and reactive tendency was even stronger.

Furthermore, it appears that the internal energy associated with the state of restlessness can be most effectively, if not only, released through entrepreneurial activities. After the economic reform, many career opportunities were opened to rural people, for instance, to be a specialized household that focuses on the commercial production of one or two agricultural products, a migration worker in urban areas or to work in rural enterprises, an entrepreneur to operate one's own nonagricultural business, a government official, or simply remain as a peasant. Once multiple choice presented, one's career decision should reflect the impact of personal characters.

Some entrepreneurs had experiences of working as ordinary labor workers before operating their own businesses. In mentioning these experiences, many of them emphasized that they never thought of being labor workers all their lives. I met an owner of a construction company in Shanghai who used to be a peasant and worked as a construction labor worker in cities. He told me that he had no problem to take the harsh working conditions. Nonetheless, he was very frustrated about the simple and routine job as a construction labor worker, not to mention the low pay and low social status. He wanted to do something more rewarding, more interesting, and more challenging. He also wanted something of his own. Thus, he paid attention to any possible opportunities and finally got a one. After spending one and half year as a labor worker, he became a construction contractor in Shanghai City and made a lot of money quickly. At the time I interviewed him, he began to diversify his business by setting up a factory at his home village in Zhejiang Province to produce alcohol for industrial use. He said as long as there were opportunities to do business, he would never think of being a laborer. His

philosophy was that in reality, there were so many opportunities. One had to try them and should not let them pass by. My impression about many entrepreneurs through talking with them was that they seemed not have second thoughts on other career choices, if the opportunities to practice entrepreneurship were available.

Many rural entrepreneurs are former grass-roots level government officials (brigade and production team levels). Though no actual data were available, my observation would be that about one-fourth of rural entrepreneurs had experiences as former officials. This was particularly true for the enterprises of collective ownership. Local governments normally appointed officials as the managers of collective enterprises. Others' study showed the similar situations as well (e.g., Wong et al, 1995; Tao, 1988). One interpretation of this phenomenon is be that their previous experience as government officials gave them certain structurally determined advantages in entrepreneurial positions. A frequently cited advantage was the connection (Guanxi) formed during their tenure with various government agencies, key persons in the power network, and sources of information. In business, it means easy access to capital, materials, customers, and tax break. Those previous officials would enter entrepreneurial positions because they had those connections.

The truth is that the assumed impact of connection on business success was extremely exaggerated. It is simply unrealistic to assume that a business could be operated just by connections. I asked many entrepreneurs about their opinions on the importance of connection in business operation. One entrepreneur provides a good summary of those opinions. He said, connection was important and one could not do

business without it. But connection could never guarantee success. Furthermore, for a rural entrepreneur to maintain his business connection, the performance of his company was critical. A good business could bring new connections and a bad business could lose the existing connections. He thought and I agreed, to some extent, connection was the result of business performance rather than the cause.

Thus, the structural explanation does not explain why so many grass-roots level officials entered entrepreneurial occupations and many of them were quite successful. Nonetheless, not by chance, this phenomenon can be reasonably explained by a psychological perspective. As McClelland (1961) indicated, in a society where the opportunities to practice entrepreneurship were suppressed, people with high n Ach would take other opportunities considered as excellent. Before the economic reform, to be a grass-roots level official was almost the only way for rural people to excel. With almost no other opportunities available, many high n Ach rural people could be attracted to the opportunities of being grass-roots level officials. Thus, a significant portion of these grass-roots level officials should be very entrepreneurially oriented. Once opportunities were available, they should be naturally drawn into entrepreneurial activities for those were the most effective channels to release their n Ach related energy.

Entrepreneurial people would also stay in entrepreneurial occupations even though other opportunities are available. To promote the development of rural enterprises, many local governments rewarded outstanding entrepreneurs by assigning them as government officials. The author observed this phenomenon in every locality visited. Liu (1995) documented this phenomenon as well. In a local government policy

document (Document No. 34 of 1994 of Dazu County CCP Committee), it explicitly stated that if the annual outcome of a company was over one hundred million yuans, its manager could become a government official.

This practice reflected the long lasting mentality in Chinese society that government officials had the highest social status. The government still assumed that the most attractive career was to be a government official. By rewarding outstanding entrepreneurs with official status, local governments hoped to draw more people to join the effort of developing rural enterprises. This practice was particularly popular in the areas where the collective enterprises are in a dominant position because the local governments have direct power to determine the position of a manager. Among the local officials I interviewed, some became officials through this channel. However, they were not happy about the arrangement. Besides the loss of income (the income level for the government officials was usually lower than that of outstanding entrepreneurs), they mainly complained about the various bureaucratic rituals that a government official has to follow.

Many rural entrepreneurs expressed dislike to some aspects of being a government official, an intellectual, a labor worker, or a peasant. Economic reward was the surface reason of their aversions. Further discussion with them revealed that they mainly concerned about the growth potential rather than the immediate benefit. In many cases, entrepreneurs usually made less than government officials at the beginning. Moreover, they did not have any benefits and privileges that were associated with an official status,

such as higher social status and easy working conditions. Also entrepreneurial endeavors were risky and the working conditions were harsh.

They thought that those were fed-by-others occupations. One had to depend on others to make their living. As an official, an intellectual, or a peasant, there were limits for the amount of money one could make. These limits are structurally determined and independent of personal effort. People with strong entrepreneurial orientations would not like to work on a career that the future is predetermined. They would choose a career that allow them to try their best to test the limit. When the opportunities to practice entrepreneurship opened to everyone at the early 80s, no one knew how far one could go as an entrepreneur. But it was clear that individual effort could make a big difference. They admitted that they received many harsh and unfair treatments in business operations. However, when they saw their businesses growing and had achieved something of their own, their senses of satisfaction made all those prices of worth paying. In Jinjiang City, where the entrepreneurial spirit was strong, the trend of being own boss was very popular. As indicated by a local official (Xie Luwei, deputy director of the rural enterprise bureau), this phenomenon even brought some negative effects. Because people tried every opportunity to be an entrepreneur, few would remain in the positions of middle management. The difficulties in retaining skillful managerial personnel impaired the potential of business expanding in Jinjiang City.



Assigning people with higher n Ach to entrepreneurial positions.

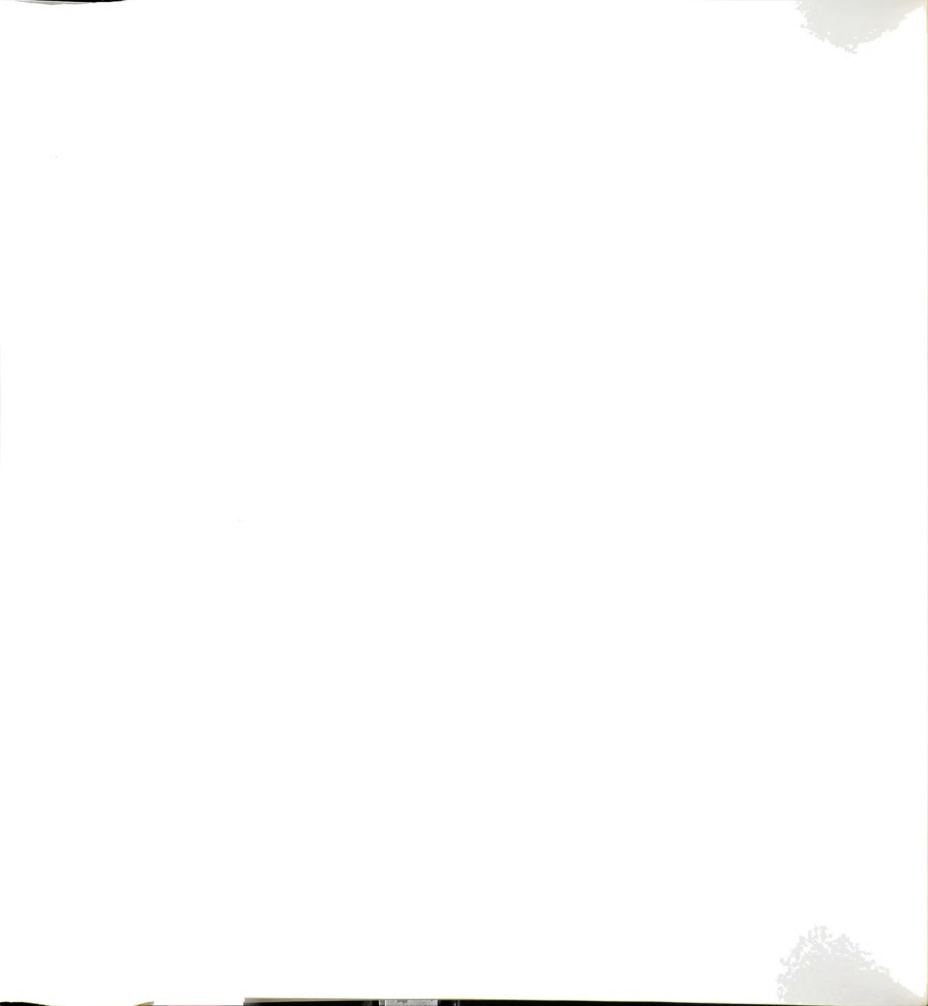
In the existing literature on entrepreneurship, the focus is exclusively on how people with strong achievement orientations choose and perform well in entrepreneurial occupations. This focus is understandable for only this type of data is available in the West. The development of Chinese rural enterprises provided an opportunity to look at the relationship between achievement motive and entrepreneurial performance from a different perspective. That is, what would happen if people with high n Ach were assigned to entrepreneurial positions?

The development of rural enterprises in the Sunan Area (Southern Jiangsu Province, Wujiang City is part of that area) provided rich data in this regard. Collective ownership was a dominant form in that area. It meant that local governments at various levels had the power to appoint and replace the top manager of a company. In the mid-1980s, the local government in this area recognized that many existing management teams were not suited under increasingly intensified market competition. Those people were assigned to managerial positions at the early stage of development. At that time, the main threats to business were political factors rather than market forces. As long as political interference was not intense, operating a rural enterprise was not a serious challenge because the production was usually small in scale and competition in the market was weak. So a manager's duty was more managerial than entrepreneurial. After the mid-1980s, the political interference was no longer an issue. On the other hand, the growing market competition required those managers to operate business in a more entrepreneurial manner. Under the new circumstance, the early generation of managers

was incapable of meeting entrepreneurial requirements. Consequently, the development of rural enterprises in the Sunan area was in stagnation. Facing the problem, the local governments recognized the need for adjusting management teams. They did so decisively and the results were very good. High quality of management was considered as a key that rural enterprises in the Sunan area could maintain continuous high speed development.

The criteria that the local governments used in adjusting the management teams of rural enterprises were summarized in five categories (Tao, 1988: 151). They provide clues why the adjustment efforts were successful. The first category is that one has to accept the principle of collective ownership and would help other people to become rich. As the top manager of a company, one needs to serve the collective interests of community first. Personal interest is important but secondary.

Second, one has to have a strong sense of commodity economy. The term commodity economy has a unique Chinese flavor here. It refers to the business practice under the market mechanism and contrasts with the practice of the planned economy. Under the planned economy, a top manager only needs to follow the orders from government agencies and manage the production process. It is not the requirement of a managerial role to actively search for and organizing basic production elements. Under the market mechanism, the manager of a company needs to actively search for business opportunities, assemble all necessary resources, and make strong marketing effort. If a manager could not perform those actions, then the company would suffer in market competition.



Third, one should be willing to take certain risks in business operation. In a market economy, there is simply no business activity without a risk. Particularly in a fast changing environment where the rules of business activity have not been well established, a top manager has to face much greater uncertainty, such as assuring the supply of raw material, exploring marketing channels, and launching new products. To be a top manager, one needs to constantly adjust action plans in responding to the changing external and internal conditions. At a critical moment, the manager should have enough courage to take on promising business opportunities with certain risk.

Fourth, one should have the desire to compete against the best. Although rural enterprises in the Sunan area were primitive and small in scale, the government would see that their managers aimed at higher goals such as entering international market and surpassing state enterprises. They should not just satisfied with running a small workshop or the rural enterprises would never grow up. To meet such a requirement, the manager of a company needs to have a strong desire to surpass a higher standard of excellence and constantly improve the performance of company.

Fifth, one should be willing to make contribution to rural development. This requirement can be interpreted as a community service orientation. The goal of local governments to develop rural enterprise is to serve the interests of local communities. Thus, the top managers should be willing to work for this goal.

The first and the fifth requirements primarily reflect the agenda of the local governments rather than business demand. It is easy to tell that the second, third, and fourth requirements are very close to the entrepreneurial role requirements discussed

previously. Following these criteria, people who were selected by the local government should have strong entrepreneurial potentials. Consequently, the match between personal characters and job requirements explains why the actions of local governments stimulated the development of rural enterprises in the Sunan area. This evidence suggests that the positive relationship between achievement and entrepreneurial performance applies not only on those who voluntarily choose to be entrepreneurs but also on those who were assigned to entrepreneurial positions. In fact, almost all entrepreneurs I interviewed in Wujiang City were appointed by the local governments. The success of rural enterprises in this area suggests that it be a success of the local governments in identifying competent entrepreneurs too.

4. Summary

The relationship between achievement motive and entrepreneurial activities is the central topic of this chapter. It is contended that the political, social, economical, and cultural conditions in China created opportunities for rural people to practice their entrepreneurial potential. To take advantage of those opportunities, however, rural entrepreneurs had to overcome enormous difficulties. In a situation where both opportunity and challenge exist, a precondition of success is that people have to be motivated to take and sustain on actions which are necessary to overcome difficulties and required for the attainment of certain goals. Obviously, if one is intimidated by or afraid of difficulties and would not take actions, an opportunity will remain as an opportunity but reality.

The difficulties that rural entrepreneurs faced were from different sources. One was associated with the fact that psychologically, rural people were at the bottom of Chinese society and discriminated by other social groups, such as urban people. The next one was various administrative barriers created by the government policies which favored the state-owned sector of economy in terms of non-agricultural production. Also historically, rural areas were generally poor and underdeveloped therefore lacked of necessary infrastructure for non-agricultural production. Those conditions created enormous difficulties for rural entrepreneurs. To overcome those difficulties was a good test of how strongly a person was motivated to pursue entrepreneurial success.

There were many popular explanations about what motivated rural entrepreneurs. This chapter discussed three of them. The first one contended that rural entrepreneurs worked hard because they were poor and wanted to be rich. The second explanation attributed the choice of rural entrepreneurs to the pressure of transferring huge amount of surplus agricultural labor. It assumed that many rural people became entrepreneurs as a forced choice because they were no longer needed in agriculture. Rural people's desires for urban life was the third explanation. While admitting that these explanations have some factual base and are valid to account for why rural people were transformed out of agriculture, they were not proper in explaining why some but not all rural people chose entrepreneurial occupations and why some rural entrepreneurs were more successful than others. For many qualitative evidence showed that to be poor, to have nothing to do in agriculture, and to desire for urban life were not sufficient conditions for one to become an entrepreneur.

As discussed in Chapter Two, need for achievement (n Ach) is a critical construct in explaining one's choice to become an entrepreneur and individual differences in entrepreneurial performance. The theoretical importance of n Ach in entrepreneurial activities is because of that the entrepreneurial role requirements match the career interests of people with higher n Ach. Also fulfilling those requirements are intrinsically rewarding to them. In this chapter, qualitative data were analyzed to test whether the inclination to take achievement related behavior differentiates entrepreneurs from non-entrepreneurs, and more successful from less successful entrepreneurs. Because the achievement incentives correspond with the entrepreneurial role requirements, the analysis revolved around the actions that were relevant for the attainment of achievement incentives, such as act against standard of excellence, seek performance feedback, and take calculated entrepreneurial risk.

According to the qualitative evidence presented in this chapter, when multiple career choices were available, those who would choose entrepreneurial occupations demonstrated more achievement related behavior. Through extensive interview with rural entrepreneurs and other relevant people, I realized that the choice to become an entrepreneur was affected not only by the potential economic reward associated with entrepreneurial success, but also other features of entrepreneurial occupations, such as opportunities to be own boss, development potentials through personal effort, and efficiency orientation. For instance, more successful entrepreneurs showed greater interests in information indicating high standard, were eager to learn to improve their performance, used higher standard to assess their own performance, and were sensitive to



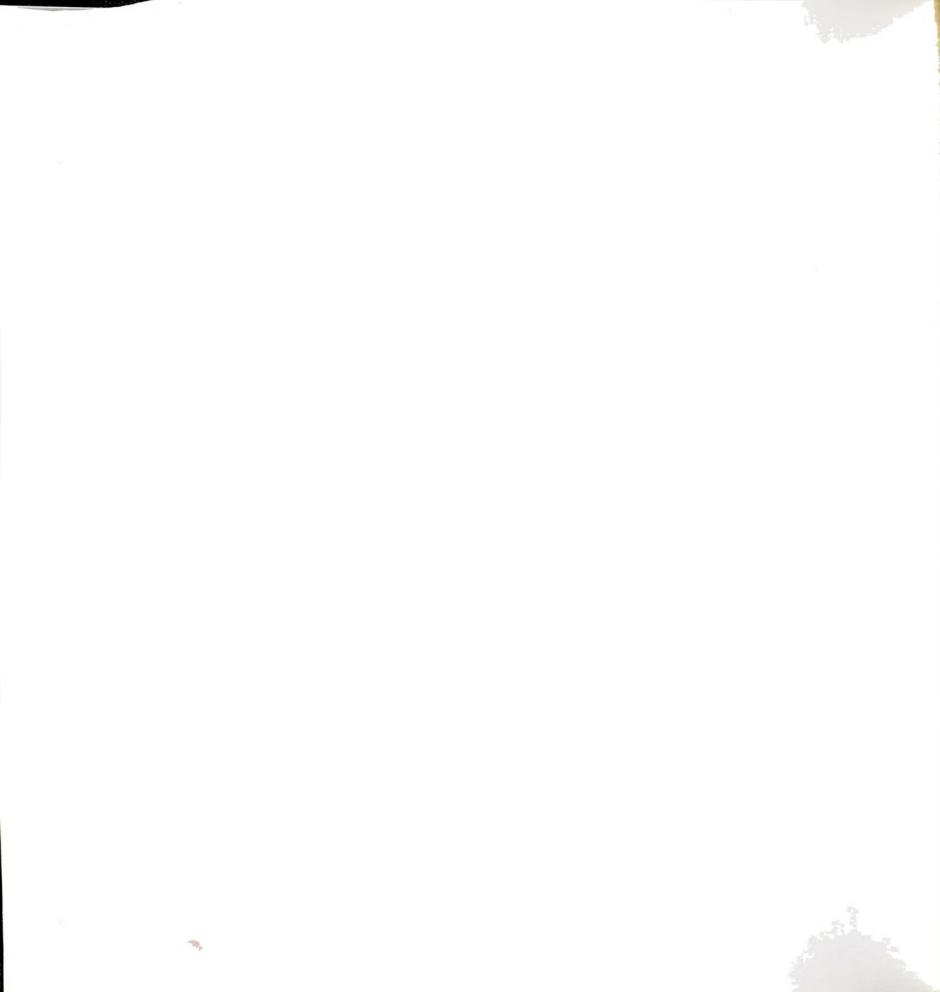
information about the outcome of their decisions. Also outstanding entrepreneurs were not afraid of taking some risks in business operation. Nonetheless, they would make thorough calculation to determine the benefit of their actions and would take various protective actions to reduce the probability of failure.

In addition to achievement related behavior, another indicator of strong n Ach was the spontaneous emotional expression by outstanding rural entrepreneurs accompanied with their discussions of achievement related behavior. This type of emotional expression indicated that they were excited and energized by those activities. For instance, outstanding entrepreneurs often got very excited while talking about their new business ideas and the improvements they had made in their business operations. A general indicator of emotional element of achievement related behavior was a state of restless which could be observed from outstanding entrepreneurs when they could not engage in entrepreneurial activities, if opportunities were available. Such a state indicates energy inside those people for entrepreneurial activities. The qualitative evidence showed that the restless state could only be released through entrepreneurial activities.

In brief, my observation suggested that individual difference in n Ach explains why someone chooses entrepreneurial occupation and why some entrepreneurs are more successful. The positive impact of n Ach on entrepreneurial performance remained valid if high n Ach people were selected by others to become entrepreneurs. Rural enterprises in the Sunan area (Southern Jiangsu Province) provided first-hand evidence in this regard. In that area, local government selected and assigned rural people who demonstrated

strong potential for n Ach related actions to managerial positions. The intervention by local government produced good economic results.

Finally, because the development of Chinese rural enterprises was collectively very successful and this phenomenon included a great number of individual businesses, the findings in this chapter suggested that a great number of rural people possessed optimal level of n Ach. Such findings echo the discussion in Chapter Four that the collective n Ach level of Chinese people had been at an optimal level of entrepreneurial activities before the economic reform, which was an important societal condition for the large scale development of rural enterprises. In Chapter Eight, the relationship between n Ach and entrepreneurial performance will be further explored using quantitative evidence.



Chapter Seven

Dealing with challenges:

Competent Chinese rural entrepreneurs

"A weak body cannot bear a strong heart (Xin You Yu er Li Bu Zu)" is a popular Chinese saying. It described a situation that one is strongly motivated but unable to take necessary action toward the expected goals for lack of abilities. Given what has been discussed in the previous chapters, a question may be raised that if opportunities for entrepreneurial activities are available and there are enough optimally motivated rural people, do those people also possess the abilities that were required to turn business potentials into reality? Or in a simple way, were there enough rural people who could do the job of an entrepreneur and do it well? In Chapter Four, the role of ability in entrepreneurial activities was discussed at a macro level in terms how the rural reform prepared rural people with the skills for commercial production. This issue will be further discussed here at individual level.

1. Threshold requirements for a Chinese rural entrepreneur.

Optimal physical ability to endure harsh living and working conditions.

There are several threshold requirements that one has to meet to be a rural entrepreneur. The first one is an optimal level of physical ability to endure very harsh

working and living conditions. This requirement was particularly important at the early stage of development. When businesses just started from scratch, the working conditions were normally very poor and physically demanding. As a business owner or a manager, a rural entrepreneur had to engage in both physical and mental activities in business operation. The demand on physical ability often exceeded that on mental ability at the early stage. Only after a business is well established, the demand becomes more mental than physical. Then an entrepreneur could primarily focus on how to organize business activities rather than personally participate in labor work.

The harsh working and living conditions were manifested in many ways, such as long working hours (normally over 12 hours daily), heavy manual labor work, very poor work environment (noisy, dirty, dark, crowd, cold in winter and hot in summer), and poor safety protection (expose to hazardous materials, pollution, and injury). Rural areas also lacked of many living necessities that people in urban areas would take for granted. The hygiene condition was particularly poor. One could get ill easily if his/her physical condition did not suit the environment.

The chief engineer of Fengzhu Bleaching Dying Company described his personal experience of the working and living conditions at the early stage. During the construction phase, he worked day and night with labor workers and did all kinds of heavy manual labor, in addition to his main duty as the chief engineer. What the ordinary labor workers did, he did too. What the ordinary labor couldn't do, he would do it as well. When they started to construct the first production line, no one knew how to build bleaching pits except the chief engineer. He had to personally build a model to teach the

workers. At the construction site, he was muddy and greasy. It was no way to tell him from a labor worker just by looking at him. After work, he went back to a small room where he lived. The room was made by stone and very hot in summer. It was more like a solitary cell. There is no place to take a shower. He had to wait until dark and use a bucket of water to wash himself on the patio because nobody could see him naked then. He had to use public restroom that was so dirty. One who was not used to that kind of restroom would feel faint once inside. His wife joined him few years later when the conditions improved significantly. She told me that she would rather be killed if she had to use the public restroom there. The chief engineer spoke very emotionally that the conditions were just terrible. Another story he told me supported his description from a different perspective. Because he was contracted to help the company by a state research institute to which he belonged, many people in that research institute were jealous of him because he could make much more money than they did. Several people from the research institute visited Fengzhu company. Having seen the working and living conditions the first hand, those people were shocked by the reality. They admitted that they could not undergo such an endeavor and agreed that the money he made was not easy. The chief engineer was quite proud of his own capability to endure those harsh conditions.

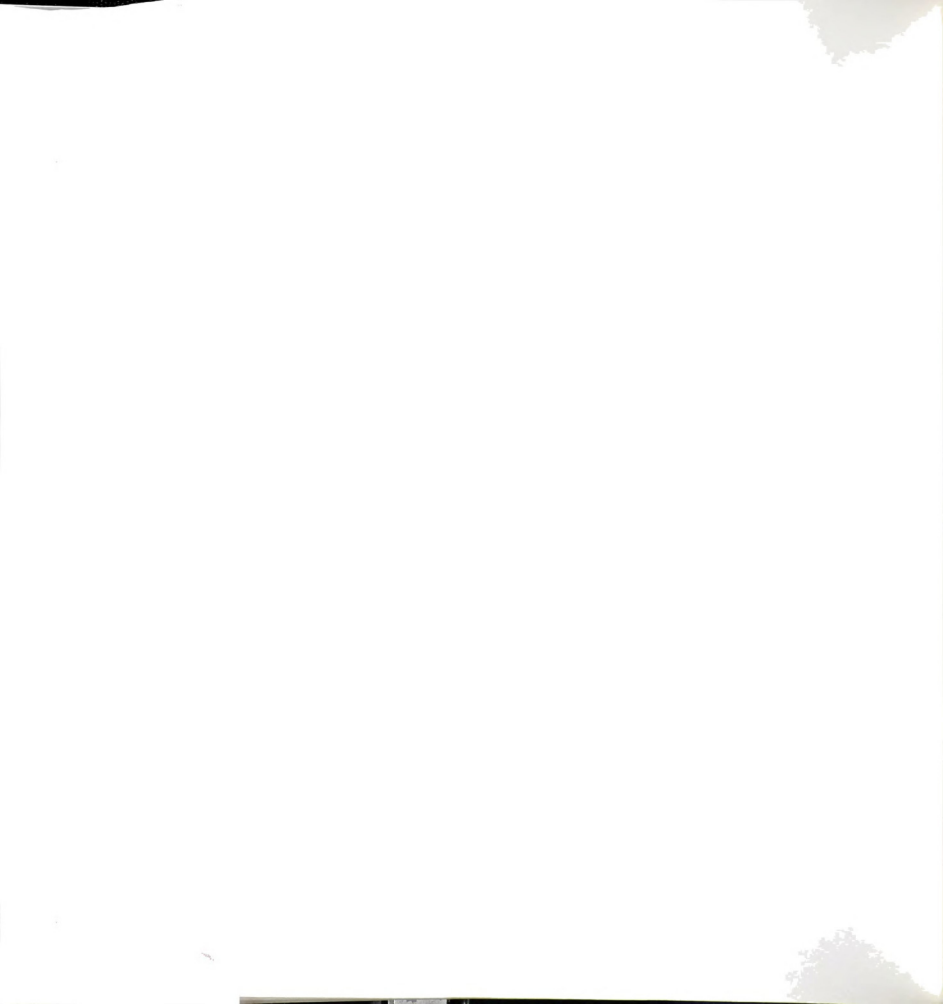
In terms of minimum physical ability, almost all rural people could pass the test, as the result of involvement in physically demanding agricultural production. Agriculture in China is still primitive. In many places, manual labor remains the primary source of power. Many rural people told me that the agricultural work was too tough. The manager of a collective enterprise in Meiyuan Township of Wujiang City told me that peasants were

eager to work in a factory even though the pay was the same as that in agriculture. Nonetheless, the agricultural work does train rural people with optimal physical abilities to endure harsh working conditions. By the same token, because the primitive living conditions were their daily experiences, rural people became adaptive to the environment. They would view the primitive living condition as the rule rather than an exception. The threshold requirement of physical ability did not set apart those who could become entrepreneurs from those who could not among rural people. It primarily differentiated urban people's involvement in rural enterprises. It partly explains that rural enterprises had to be rural. Judged by this requirement, many urban people would be screened out as incompetent to be rural entrepreneurs because they were physically not suited to those harsh conditions.

For instance, a local official of Shengze Township told me that during the 1970s, many local textile factories used equipment that was obsolete and abandoned by state enterprises. Those antique equipments produced very loud noise. Having seen the situation, people from state enterprises were shocked that rural people were able to work under such terrible conditions. On the other hand, rural people, both entrepreneurs and labor workers, appeared not to be bothered too much by the terrible conditions. They were just physically capable of enduring the tough environment. At the time I visited Shengze Township in 1995, the noise levels in all textile factories were controlled to an optimal level because more advanced equipment was used. However, at the early stage of development, the poor financial conditions determined that rural enterprises had to use cheap and low-tech equipment that put heavy demand on people's physical conditions.

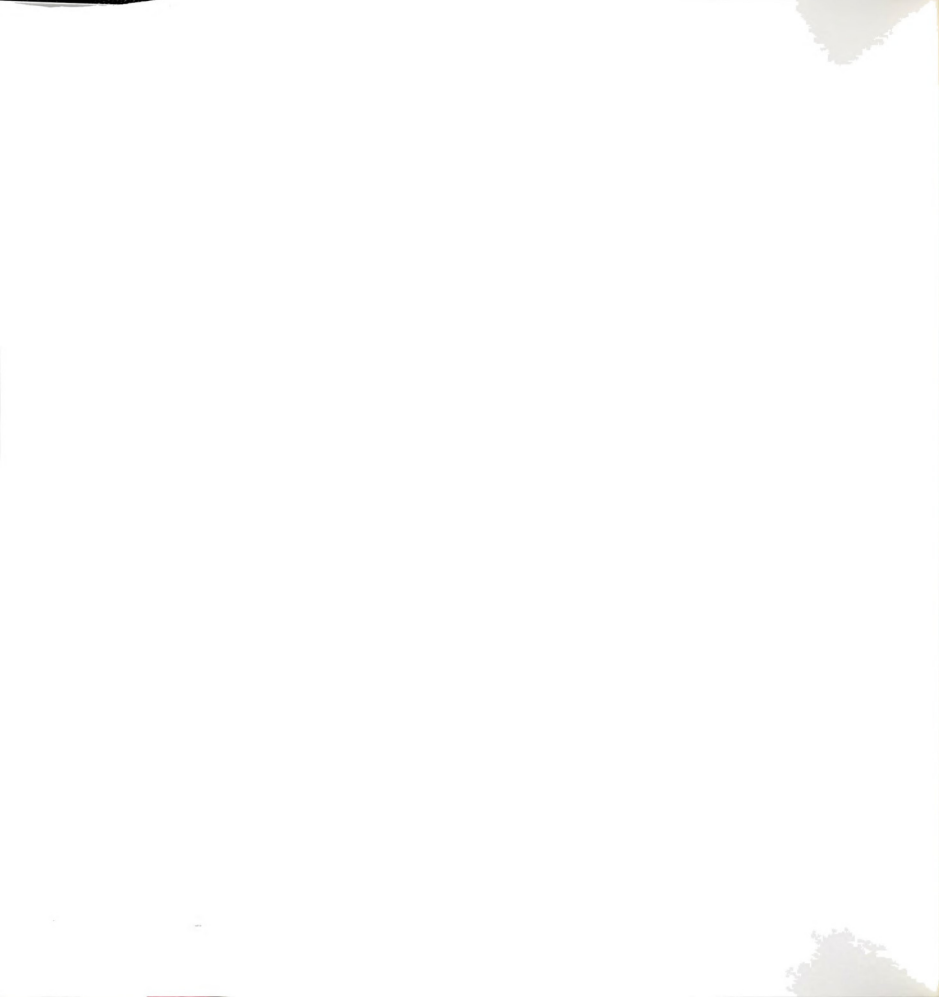
Many rural entrepreneurs would tell me that they were no longer physically capable of doing what they had done at the earlier days of their businesses. As they explained, the improved living conditions eroded their physical strengths. A group of entrepreneurs in Yinlin Township of Jinjiang City described what they did when they just started their businesses. They usually needed to ride bikes for 30 or 40 miles to transport 100 kilograms of clothes or cloth materials. It was all done on rugged dirt roads. That made the endeavor even tougher. At that time, no one thought that was physically impossible. People just took it for granted. At the time when I did my field work there, they did not think any one of them could repeat what they did before. A joke they made about their current physical conditions suggested how physically capable people were at the early time. Jinjiang City is located at a position directly opposite to Taiwan across the Taiwan straight. It is only three miles apart from the nationalist controlled Big Jingmen Island. It used to be the front line of military conflict between the mainland government and the Taiwan authority. The famous artillery battle over the Jingmen Island in 1960 was taken place in Jinjiang City. Thus, people there were always in a high alert for a war might occur any minute. Those entrepreneurs joked about that everyone would die if a war broke out because no one had the ability to outrun the speed of a bullet that they enjoyed before they became entrepreneurs.

In terms of urban people's participation in rural enterprises at the early time, the chief engineer of Fengzhu Bleaching Dying Company was a rare case. He was not treated differently from other people in the company. His working and living conditions were the same as other entrepreneurs and even the labor workers. In most cases, to attract urban



technical and managerial personnel, however, rural entrepreneurs needed to provide them with something like royal treatment, if judged by the local standards. A practical reason to do so was to reduce the demand on physical ability to work and live in rural areas. In Meiyuan township of Wujiang City, a high-tech company employed a dozen of urban engineers. The manager told me that one of his main strategies to retain those people was to provide them with similar working and living conditions in urban areas. They lived in a dorm with all contemporary living necessities, such as flushing toilet, running water, and even air-conditioning. A garment factory at Yinling Township of Jinjiang City provided its technical and managerial personnel with hotel style living conditions and so did Huiyuan Company at Cizao Township. The owner of a brick mill in Tongliang County tried a manufacturing business with the help of an engineer from a state enterprise. He said he did everything to make the engineer live comfortably. He even acted like a servant to serve meals and prepare hot water for that engineer to wash feet every night. Unfortunately, that person was a fake and incapable of delivering what he promised. Then the entrepreneur's attempt ended as failure. This is the similar situation as technical and managerial personnel of advanced nations to work in developing countries. The host countries usually need to prepare better living and working conditions for them because they could not withstand the harsh conditions of developing countries.

In 1995 when I did my field work in China, though many rural enterprises had achieved fairly high standard of living and working conditions as the result of business success, the majority were still in very poor conditions. I was really surprised when I saw the primitive working conditions of some companies. Nonetheless, the miracle of Chinese



rural enterprises was created under the extremely difficult conditions. Having witnessed the situation the first hand, I could say nothing but show my sincerest respect to the people who were involved.

Strong mental ability to withstand disrespectful treatment by others.

As discussed previously, rural people are psychologically at the bottom of social hierarchy in Chinese society and looked down upon by those of other social groups. Because of the wide spread discrimination, when interacted with the people of privileged groups, such as government officials, employees of state enterprises, and even urban customers, rural people were rarely treated with respect. Given the reality, another threshold requirement for being a rural entrepreneur is a strong mental ability to persist against but not withdraw from the disrespectful treatment by others.

As result of discriminative attitude towards rural people, many unfair demands were imposed upon rural entrepreneurs in their efforts to obtain various business resources. To deal with those unfair demands, rural entrepreneurs had to make extraordinary efforts that were often at the expense of their self-esteem. Particularly for enterprises that had not been well established, to maintain self-esteem in business operation was a luxury. Begging and playing fool were among the frequently used strategies. A popular view holds that the bribe is the only mean that rural entrepreneurs used to break out their ways for success. The evidence I collected, however, tells different stories. Particularly at the early stage of development, rural entrepreneurs succeeded in

getting what they needed through either impressing others by their sincerity and humbleness or annoying others by their aggressiveness and persistence.

The manager of a packaging material factory told me a story about how he obtained some key supplies at the early time. His company is a horizontal cooperative with a state enterprise. In theory, that state enterprise should help it to get supplies. Unfortunately, the state enterprise itself did not have enough supply. Therefore, the packaging company had to rely on its own to get most raw materials. To cut the long story short, the manager learned that another state enterprise had the material. He went to that enterprise and hoped to get some. What he found out was that he was not even allowed to enter that factory because of his peasant looking. Nonetheless, he was determined to see the manager of that factory. He told me that it took him three days to get to talk with the manager. Why did it take so long? He knew he was not able to meet the manager in the factory. Thus, he decided to find out where the manager lived and had a talk at his home. What he did sounded like a spy story: he waited at the entrance of the factory and followed that manager when he left for home. Since that manager rode a bike and he used his two feet, the target was lost many times. After several trials, he found out the home of that manager and told him the whole story. The manager of that state enterprise was moved by his sincerity and persistence and agreed to give him the material. As a gift, the rural entrepreneur gave that manager a piece of locally made silk sheet that was fairly light in value. His success was mainly due to his extraordinary effort. A story told by a manager of a state enterprise showed from a different perspective the effort rural entrepreneurs would make. He was the director of a factory that produced heavy trucks.

At one time, several peasants carried a huge bag filled with cash and wanted to buy a truck. Initially, he told those peasants that truck was a controlled commodity by the state. He could not sell to private buyers. To his surprise, those peasants were determined to buy a truck and told him that they would camp at the factory until they got a truck. This story had a happy ending because the director sold them a truck. He explained to me that he was really impressed by the persistence of those peasants and would took some risk. Also those peasants used the truck for good purpose. So why not sell them a one. Then I asked him about the issue of state planning. He replied that there were always ways to get around it but did not specify in detail.

Another story is about how a rural entrepreneur won the investment from a Taiwan businessman in Yueyan City. The entrepreneur had a good products and would start a business but was short of capital. Then he learned that a Taiwan businessman came Yueyan to look for investment opportunity. He made his mind to catch the opportunity. What he did was to escort the Taiwan businessman all the time during his visit. He not only informed his business plan, but also took care almost everything for that businessman, such as shopping, laundry, and sightseeing. At the end, the businessman was so impressed and said that the entrepreneur treated him much better than his own son would do. He decided to have the entrepreneur as the investment partner. The business was quite successful when I was there.

Although those stories all had happy endings and rural entrepreneurs did get what they wanted, their actions nonetheless demeaned themselves. Those actions were easy said than done. A reason frequently cited by people who would not enter entrepreneurial

occupation is that they had no problem to work very hard, but would not sacrifice their self-esteem to please others. To be a rural entrepreneur, one has to make great sacrifice in this regard because the widespread discrimination toward rural people.

Unlike physical ability to enduring harsh working and living conditions, the requirement on mental ability does differentiate rural people whether one could qualify as an entrepreneur. After being discriminated for a long time, rural people were used to the fact that they would not be treated respectfully by other social groups. They would not feel very upset if they were not respected. In order to be a successful entrepreneur, no upset feeling under such a condition is not enough. One must not be intimidated by the treatment. Many rural people simply withdrew when they were treated disrespectfully. However, being proactive is critical for entrepreneurial success. The capability of not being bothered by disrespectful treatment is an advantage so that one would not be distracted by the external hassles. At the meantime, one also needs to maintain the momentum of actions. Not all rural people possess such a capability. People often say that Lao Shi Ren (humble people) cannot be businessmen. Those are people who can be easily intimidated by disrespectful treatment (e.g., Zhang & Sun, 1992).

This requirement also had differentiating power among urban people regarding their involvement in rural enterprises. Besides passing the test of physical ability, if one wants to fully involve himself with a rural enterprise, he also needs to make mental adjustment to equalize himself psychologically with rural people. He should treat rural people with respect. For those who would not do so, they will never be an integrated part of rural enterprises. The manager of the sewing machine factory in Wanpin Township of

Wujiang City was previously a technical personnel in a state enterprise. He is also a native Shanghainese. Shanghai is a city in China where perhaps the strongest discrimination against rural people exists. I asked him about his feeling of working with rural people. He replied that he used to have a discriminative attitude toward rural people. His attitude was changed when he was on an assignment in 1964 that brought him into the direct contact with ordinary rural people. He found that rural people deserved respect and really respected them since then. He indicated that one had to sincerely respect rural people to work with them. Or there was no way for cooperation, even if one pretended to respect rural people. The chief engineer of Fengzhu Bleaching Dying Company was also a good example. He never put himself above the rural entrepreneurs he worked with and showed sincere respect to them. A well-maintained cooperative relationship among them was a key to the success of that company. Without mutual respect, such a relationship could not be maintained. This is particularly true when a rural enterprise has not well established and cannot afford to provide key staffs with generous material compensation.

An interesting phenomenon was that this requirement could be met through collective effort. I observed in several companies rural entrepreneurs worked as a team to deal with the reality of disrespectful treatment by others. If one entrepreneur did not have strong ability in this regard, the weakness could be compensated by others. Then collectively, the entrepreneur team still possessed the required ability. Usually, there was one person who was particularly good and would assume the major responsibility in this regard. For instance, in the bleaching dying company, the general manager would prefer conflict if someone treated him disrespectfully. Conflict with the powerful normally

could not produce good business outcomes. Then the support of his deputy director compensated his weakness. The deputy director was primarily responsible in dealing with local officials. In the sewing machine factory of Wanping Township, the rural partners were in charge. In the packaging material factory of Shengze Township, the general manager took care all the relevant issues. I was amazed by an episode happened during my visit to the packaging material factory. When I entered the office, only the deputy director was there. He treated me very well but would not answer any of my questions. He insisted that all questions had to be addressed to the general manager. After I talked to the general manager, I realized why the deputy director would not talk. The general manager was so talkative and clearly not affected by others' social status. In comparison, the deputy director was more humble and quiet. They told me that they had division of labor between themselves. To deal with outside issues was the responsibility of the general manager. The internal management belonged to the deputy director. This episode showed that they followed this division seriously.

It should be made clear that the discussion in this section is by no mean to suggest that rural entrepreneurs would not care about whether people respect them or not. Their actions to swallow the bitterness of no self-esteem were forced choices because the need for maintaining self-esteem was overridden by business priorities. They just possess the strong mental capacity to accept the forced choice and not to let it interfere with their effort business goals.

In private, the deputy director of the bleaching dying company, who was in charge of dealing with the local officials, always complained that he was treated as nothing by

everyone because he had to constantly play fool to please other people. He said: "When I dress in a nice suit, I look like really somebody. Then I can only be a big fool when I go talk to those officials." He really hated to behave like that. Nonetheless, once in front of the people who were important to the business, he acted as if none of what he complained about bothered him. He would act in whatever manners that pleased those people. I saw many times he played a good buddy with local officials. For instance, he would call those officials as bosses and himself as humble subordinate. Then he would ask those powerful bosses to show some mercy to their humble subordinate and give him what he wanted. During my interview, many rural entrepreneurs told me that to be an entrepreneur was not a career for a real human being because no one would respect you. But once they were facing business issues, many handled the reality well and would not be distracted by disrespectful treatment from their business goals.

The minimum requirements of physical and mental abilities are additional evidence why rural enterprises had to be and could be rural. Only in rural areas, there was more than enough supply of people who possess these required abilities. In urban areas, there were some qualified people but the number was insufficient to support the development of rural enterprises in such a great number, at such a massive scale, in such a short period, and with such a broad geographic coverage.

2. Abilities required to be effective rural entrepreneurs.

The requirements on physical and mental abilities are baselines that one must meet to become a rural entrepreneur. These requirements were less relevant to the

performance of individual entrepreneurs. Successful and less successful entrepreneurs differ on other ability factors.

First, successful entrepreneurs often displayed optimal levels of analytical and conceptual abilities that are compatible with the management priorities at different stages of development. One expression of analytical ability relates to cognitive processes of recognizing or identifying causal relation. It is a process to link specific causes to specific outcomes. The complexity of a causal relationship increases if one cause may lead to multiple outcomes, if one outcome is produced by multiple causes, or if a causal network is involved and one needs to prioritize multiple relationships. A causal network is a situation in which multiple causes and outcomes are presented and affected by each other. The more complex a causal relationship is, the stronger analytical ability is required to deal with it. Analytical ability is also relevant to activities of breaking a whole into several parts. On the other hand, conceptual ability relates to cognitive processes in a reversed direction to that of analytic ability. It assembles parts into a whole. It is a process to reveal the common causes across a set of different outcomes, to reveal the underlying characters that can unify seeming irrelevant objects, and to identify strategic direction and the key to a problem. In simple words, it is an ability to see the big picture of business.

The process of analyzing the entrepreneurial role requirements is a good example of how analytical and conceptual abilities are applied. The analytical process has two steps. One is to identify the causal relationship between one's specific actions and entrepreneurial success. The relationship can be identified because if one wants to be a successful entrepreneur, he is required to perform those actions. Furthermore, the causal

relationship between n Ach and entrepreneurial behavior is established because entrepreneurial activities attract those with higher n Ach and people with higher n Ach would like to perform those activities. Thus, a causal chain from n Ach to entrepreneurial success is identified. The conceptual activities in this process include three parts. First, numerous expressions of entrepreneurial activities are categorized by a few common themes that correspond to several groups of basic requirements, namely, surpassing the standard of excellence, searching for performance feedback, taking calculated moderate risk, and assuming individual responsibility for the outcome of one's own action. Then, these requirements are recognized as the common features of all entrepreneurial activities. Finally, need for achievement is found to be a common cause that people would engage and perform well in entrepreneurial activities. Basically, analytical ability is useful in identifying the causal relationship between specific causes and outcomes. Then conceptual ability generalizes and simplifies the relationship.

Analytical ability: The breadth of business thinking

For entrepreneurial activities, analytical ability is important in making operational decision. For instance, an entrepreneur often faces situations that several methods can be used to attain the same outcome or the same action may lead to different outcomes. Also a series of actions is often required to attain the expected outcome. While facing multiple choices, to determine the course of action require analytical ability.

At the time of my study, through my interview with rural entrepreneurs, it could tell that successful entrepreneurs tended to notice multiple relationships in their business

activities and make business decisions accordingly, whereas less successful entrepreneurs often narrowly focused on fewer relationships. Their view on migration labor workers is an example to illustrate their difference in this regard. In the areas where the development of rural enterprises was more advanced, the surplus agricultural labor in the local communities was not enough to meet the demand. Thus, people from other rural areas would come to those more advanced areas and look for jobs. A frequent topic in my discussion with rural entrepreneurs was about migration workers.

In Jinjiang City, the discrimination against migrant labor was a serious problem. A stereotypical view on migrant workers was that they were lazy, slow learners, dishonest, and trouble makers. Though they were much needed for the local economy, in general, migrant workers did not receive fair treatment. In the same company, the entrepreneurs and local workers often took advantage of those from other areas. I asked migrant workers, local people, entrepreneurs, and local officials about this issue, they all agreed that it was true. At the conference on rural development held in Jinjiang City in Dec. 1994, to treat migrant workers fairly was considered as an important factor for the continuous growth of the Jinjiang economy.

Within such an environment, Fengzhu Bleaching Dying Company was an exception in terms of how migrant workers were treated. Starting at the early time of business when the general manager and his partners were still operating a primitive workshop, he made great effort to eliminate the discriminating behavior against migrant workers. Even verbal abuse to migrant workers was not tolerated. That tradition is well maintained in the company. When I conducted the case study at the company, everyone I

interviewed, including labor workers, middle management, and technical personnel, agreed that no overt discrimination against migrant workers existed within the company. One could easily experience a peaceful climate. In addition to eliminating discrimination, the manager also made effort to provide workers with many services, such as a night club, shower facility, medical personnel, dining facility, and dorm facility. In explaining those actions, the general manager emphasized that the business outcome was the only factor affecting his decisions. He said that the reason to do so was simple. If the workers felt miserable at work, there was no way that they would do good jobs because they were demoralized. He also recognized that this problem could be solved easily if proper actions were taken. By contrast, in my discussion with those less successful entrepreneurs, they would view his effort as waste of resources and show-off. Those people thought that as entrepreneurs, they only needed to focus on narrowly defined business activities. The way that their workers were treated was an irrelevant issue to them. They apparently had difficulties to understand why caring the self-esteem of migration workers had anything to do with business. Even if they admitted that the conflict between local and migrant labor workers created difficulties for their businesses, they would rather view it as an inevitable problem and could not be solved. Thus, compared with the general manager of bleaching dying company, those entrepreneurs' understanding of business related issue had a narrower scope and missed some critical links. On the contrary, some more successful entrepreneurs showed interests in the practice of the bleaching dying company. They thought that it was a smart thing to do.

Another star company of Jinjiang City, Hengan Women's Products Company, represented a different model in dealing with migrant workers. Its manager focused more on the negative side of using migrant workers. For instance, the company needed to provide dorm facility. The labor was less stable because most migrant workers did not plan to stay at one place very long. Also the conflict between local and migrant workers was harmful to the business. Thus, its strategy was to avoid using migrant workers and mainly recruited local people. In order to do so, the company had to position itself as highly competitive in the local labor market for the supply of local labor was extremely scarce. At the meantime, using local labor could have negative impacts on business as well. Most local people were relatives to each other in one way or another and family bound was extremely strong in Jinjiang City. Under such a circumstance, it was a difficult task to enforce the rules that were critical to maintain an orderly business operation, because the pressure from relatives for lenient treatment to offenders could be very strong. Many rural enterprises failed to grow to levels as they should because of this problem. The entrepreneur of the company clearly understood this problem and also recognized that it was solvable. As what the manager of bleaching dying company did, from the very early time of his business, he created a climate within the company that no one could violate company rules, no matter how powerful his relatives were. This tradition was well maintained and the company became one of the largest woman products producers in the nation.

These two cases share a common feature that at very early time of their businesses, both entrepreneurs were able to recognize the important business implication

of proper handling labor workers and take actions to address the issue accordingly, though their approaches were completely different. They demonstrated their abilities to notice the critical impact of this issue when it was not evident to others. I met some entrepreneurs who were just overwhelmed by other business issues. The issue of proper handling of labor workers was completely out of their cognitive sphere. Even when their businesses were slowed by their improper handling of this issue, they were still unable to recognize the possible consequence.

In Wujiang City, the discrimination toward migrant workers was widespread as well, though in a mild manner. Many entrepreneurs told me that migrant workers were lazy and slow learners, as what I heard in Jinjiang City. If possible, they would not use migrant workers. Nonetheless, there were some entrepreneurs held different opinions. In Meiyuan Township, I met an entrepreneur from a lock factory that was a star enterprise. He told me that migration workers were simple and hard working. Because they were far away from their homes, they were less distracted by non-work related issues than most local workers did and could concentrate on their jobs. He reasoned that some problems with migration workers were caused by improper actions in deal with the issue. As long as proper actions were taken, migration workers could be valuable assets to a company. In practice, this company took a variety of actions to deal with potential problems in using migration workers. For instance, it made a great effort to recruit workers from many different areas rather than a few places. This approach reduced the possibility that workers from the same area would form a close group and conflict with people from other areas. To address various needs of migrant workers, the management met regularly with

them to solicit their opinions and act accordingly. The company also opened a night club for the workers and subsidized room and board. When I visited the company, it could easily tell that workers were happy to work there for I saw quite a few companies where the workers' faces were grim. Obviously, the understanding of the causal relationship between an action and outcome helped for those practices to take place.

In Tongliang and Dazu counties, migrant worker was not an issue. The rural enterprises in those two counties could absorb only a small portion of agricultural surplus labor. Many people needed to go to the coastal region to find jobs. Nonetheless, outstanding entrepreneurs there also displayed abilities to recognize critical relationships that others were not aware of and act accordingly in handling employee issue. In Longshui Township of Dazu County, its most successful enterprise was a steel modeling company. A unique feature of this company was that it employed many (about fifty) former criminals. This was an act that few entrepreneurs would take. Even the general manager of bleaching dying company would not accept people who had some link with the sex business. The Longshui entrepreneur (Liu Xinglie) held a different view on those people. He understood that those people were generally smarter and more energetic. He also believed that if they were treated properly, they could do very well for the company. One approach he used was to couple a former criminal with a trusted worker or managerial staff. The latter was responsible for helping the former to correct bad habit and form good work ethics. Also such a one-to-one relationship was backed by a designated group of people who provided regular support to solve any emerging problems. The relationship usually could last for about one year. Of course, if there was no sign showing

that one would change for good, the entrepreneur told me that he would let the person go. I learned from both the entrepreneur and local officials, up to the time I visited the company, there was not even one case of failure. The most successful case was that a former theft became the manager of a workshop of the company.

In the development of Chinese rural enterprises, a phenomenon was called "Yi Wou Feng (a flock of bees)." It refers to the phenomenon that if a company succeeded in a specific business, then everyone else would imitate and start the similar businesses. Many factories would be set up in a very short period. Many entrepreneurs who imitated others were not successful, particularly if the market capacity for a specific product was limited. For instance, in early 80s, people in Taican City of Jiangsu Province saw some companies doing very well by producing plastic TV case. Then many similar factories were quickly established. Collectively, these factories accounted for more than one-fourth of production capability of the whole nation (Tao, 1988:123). Of course, the market could not absorb such a huge production capability. Many factories had to stop production and were closed down.

There could be many reasons that explained the failure. The analytical ability was an important factor. It was often true that people who imitated others only noticed a simple causal relationship that the specific business might lead to success. However, many other critical relationships to success were not taken into account, such as market conditions, supply of raw materials, technical capability, and transportation facility. Usually, the pioneer succeeded because competition in the market was weak. If many similar businesses enter the same market, then the competition became very tense. They

needed to compete with each other for market share, raw material, technical personnel, and other resources. To succeed under such a condition, just repeat what the pioneer did was not enough. An entrepreneur should be able to do something extra to deal with the additional demands, for instance, improving the quality, providing better service, being innovative in imitating, and reducing the cost of production.

Not all entrepreneurs failed for imitating. Those who succeeded usually were able to recognize other critical relationships and act accordingly in their business activities. Most companies I visited did not have obvious advantages in the markets. The competition was tense for the market share of their products. Successful entrepreneurs outperform the competitors often by doing something unique. The proper treatment to labor workers just mentioned is one. Various strategies of risk reduction discussed in the previous chapter were among many other practices affected by one's analytical ability. Here the discussion actually touched the issue how the joint effect of motive and ability affected entrepreneurs' business activities. If a highly motivated entrepreneur is not able to identify critical relationships, then proper actions would not be taken and the expected outcomes could not be achieved.

Analytical ability: Prioritizing choices

A critical part of analytical ability is to weigh the importance of different relationship, particularly when multiple relationships are identified. Some entrepreneurs who were capable of recognizing multiple relationships but not correctly prioritizing them. Then, they became confused in determining their courses of action. During my

interview, I often tried to engage entrepreneurs in a thorough causal analysis of their business decisions. For those typical entrepreneurs, they tended to view such complex analysis as a heavy mental burden and would not do it. On the contrary, the discussions with outstanding entrepreneurs were often very fruitful. They appeared enjoying the complex analysis of their business decisions.

The strategy to handle the behavior of family members in business operation would be a example to demonstrate an entrepreneur's ability to prioritizing multiple relationships. An entrepreneur who operated a garment factory in Yinling Township of Jinjiang City complained with me about the difficulties in managing his relatives working in his company. Those people frequently violated the rules, would not help in business, and made many troubles. Nevertheless, he was reluctant to take forceful actions on them because he worried that family members would badmouth him and create difficulties for him to live in the village. He found himself helpless in balancing the business and family issues and did not know what to do. In this case, the entrepreneur was obviously unable to prioritize multiple relationships in business operation and act upon the most important one. A similar story also happened in a ceramic company of Cizao Township, Jinjiang City. The wife of the general manager intervened extensively in business operation and tried to control every detail in everyone's work. Her style made many people felt very difficult to perform and left the company. Without enough competent technical and managerial staffs, the company could not maintain normal production and the business was in a serious trouble. The entrepreneur seemed incapable of taking decisive actions to address the problems. In the contrary, Lilang Garment Company at Qingyang Township

of Jinjiang City had the similar problems. The entrepreneurs recognized that the business was much more important. They acted decisively and withdrew their family members from the company and the problem was solved quickly.

Improper handling of family members is an important reason that keeps many family businesses from growing up. In discussion, many entrepreneurs understood that they needed to have their family members to comply with the rules that were critical for a normal business order. Nevertheless, many of them struggled with the balance of business consequence and the relation to family members. Their indecisiveness in assigning business issues higher priority caused them to lose opportunities to grow their businesses at the critical moment.

Another expression of weaker ability in prioritizing critical business relationship among less successful entrepreneur was to overemphasize one relationship. For instance, many of them were overwhelmed by the concern about potential loss and paid little attention to the potential gain. Their business decisions were primarily on how to avoid loss rather than how to increase gain. In my discussion with several entrepreneurs of Miluo City, Hunan Province, all they concerned about was that any expansion plan would incur the risk of loss. Such a focus made them reluctant to expand their businesses. In all research sites, I met entrepreneurs who held the similar attitude.

In China, people would agree that connection, or friendship according to rural entrepreneurs, is an important factor for business success. It refers to personal relationship with people who are important to one's business. However, connection is not the sole determining factor. Many less successful entrepreneurs showed a tendency of

overemphasizing this factor. They often invested too much resource for establishing and maintaining connections and paid little attention to improve other critical aspects of their businesses, such as technical advancement, the quality of products, the cost of production, and the quality of labor force. Good entrepreneurs would tell me that “kickbacks” alone could never make one a successful businessman in a long run. Their opinions were that no one would like to maintain connection with a bad business for there was little return in doing so. By contrast, I met quite a few entrepreneurs who viewed connection as paramount to success. If there were no existing connections, they just didn’t what else can be done. An entrepreneur in Yueyang City told me that his factory was in a very difficult situation because its business connection with a state enterprise could no longer be maintained. I asked him about his strategy to deal with the situation. He replied: "I don't know." He appeared could not think of anything else besides searching for connections. In Tongliang County, an entrepreneur told me that connection was the only thing needed to run a business. When I tried to show him that those outstanding entrepreneurs did much more than just courting connections, he seemed indifferent to what I was saying and insisted on his belief.

Outstanding rural entrepreneurs generally worked hard to establish and maintain connections. They dealt with this issue in a balanced manner that other important aspects of business operation were attended properly as well. For instance, the general manager of the bleaching dying factory maintained vary close relationships with the highest ranked local officials. He also made great effort to improve the quality of products, select high quality labor force, and create a humane climate within the company to improve the

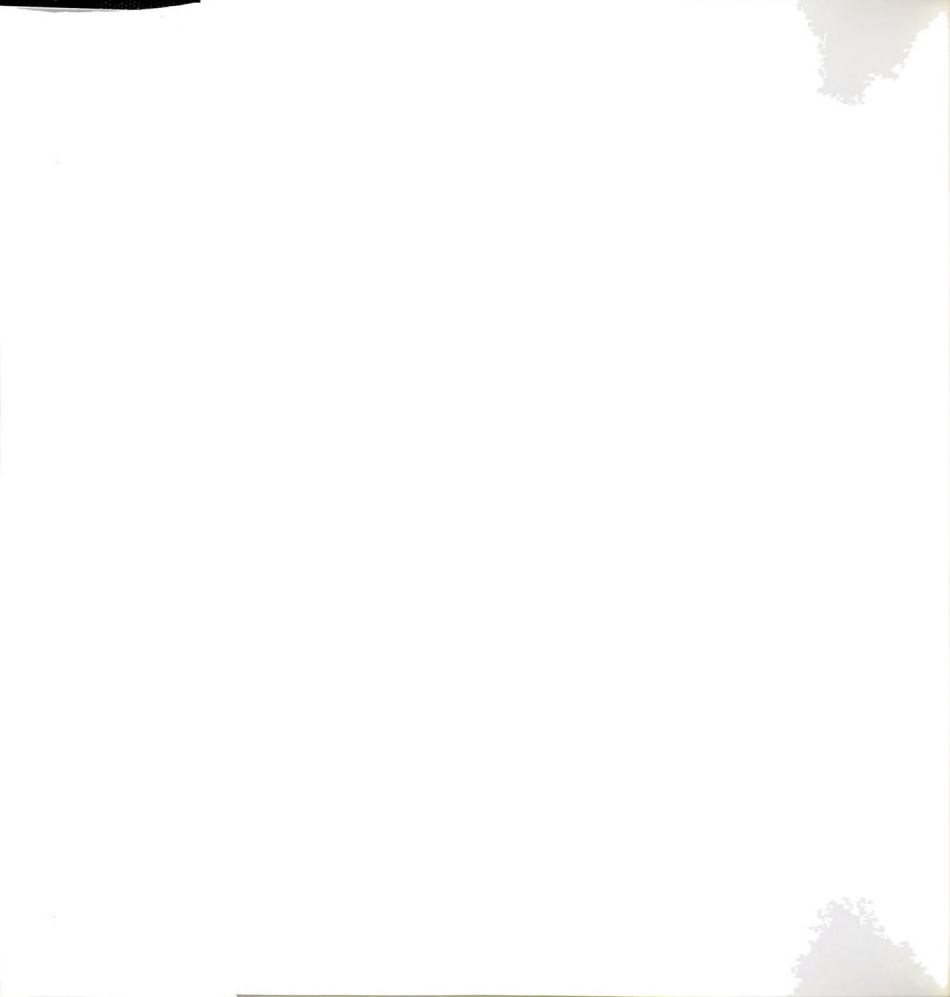


productivity of workers. As the evidence that outstanding entrepreneurs were able to act upon multiple relationships in business operations, they often took some unique actions that average entrepreneurs would not do. For instance, a star company at Shaxi Township of Taicang City, which produced PVC plastic materials, had a pig-raise business and hired significant amount of disabled people. By doing that, it was eligible for many benefits granted by government policies because it supported agriculture and helped disabled people. In another case, the sewing machine factory of Wangping Township, Wujiang City was initially set up as a joint venture with the local high school. The town officials told me that by supporting the local education, it could get some additional benefits from the government, primarily in the form of tax break. The previously mentioned practice by the steel modeling company in Longshui Township, Dazhu County to hire many former prisoners has the similar consequence.

Conceptual ability: Attacking the cause of problem

In order to deal with the cause of a business problem, an entrepreneur should be able to look beyond phenomena at the surface and dig deep to reveal underlying causes. That requires optimal level of conceptual ability. Practically, to solve a problem by dealing with cause is more effective and efficient for two reasons. First, the same problem will not repeat if the cause is eliminated. Second, one cause may relate to several problems of the same category. Thus, by removing the cause, one can solve multiple problems simultaneously. Otherwise, if a cause is not touched, a manager has to deal with various problems on one-on-one base. Also the same problem can happen repeatedly.

In Zizao Township of Jinjiang City, an entrepreneur told me that the product quality of their company was low. One reason was that the workers did not follow the procedure if they were not monitored by the managerial staffs. This is the same company mentioned previously that the general manager's wife interfered extensively with the business operation. To solve the problem, the woman came up with an idea to hire two foremen. She herself monitored the workers during the daytime shift whereas the two foremen would do the same thing during early and late evening shifts respectively. Though they tried very hard, the problem of workers not following procedures persisted. I had a thorough discussion with the entrepreneur on this problem. At the end, we agreed on several causes of this problem that the workers did not follow the procedures. One was that the workers did not receive proper training in the skills required to follow those procedures. Little effort was made to educate the workers about the importance of the production procedure. Also, the reward system had little to do with the quality of one's work. Another factor was that the general manager's wife did not treat managerial staffs with respect. People were demoralized and would not work seriously. Because of her style, several very capable managers quitted. The newly hired people were not happy as well. Unfortunately, although the entrepreneur agreed that those were important causes, he seemed had little confidence that the general manager would consider them as urgent issues. Even he himself would not consider training workers as a smart idea to improve the quality. He thought it was not worth of doing because of the high turnover rate of labor force. The resource spent on training could be wasteful because skilled workers would move to other companies. This example demonstrates the weaknesses on both



conceptual and analytical abilities. On one hand, the causes of problems were not recognized. Therefore, only the phenomenon at the surface was dealt with. After the causes were identified, the entrepreneur showed indecisiveness in prioritizing the critical relationship. He focused more on the potential loss for losing skillful workers than the potential gain for improving the labor quality through training.

The decision of the general manager of Lilang Garment Company of Qingyang Township, Jinjiang City, to unlock the door of the workshop is an example of his ability to address the problem at a cause level. This incident was also discussed in Chapter Six as an example of achievement related behavior. The initial purpose of locking the door was to prevent workers from leaving their positions during work hours. Those workers were all peasants. They were not used to disciplines and regulations. The general manager told me that before the door was locked, many of them would leave their positions to buy food, do laundry, take a nap, or simply walk around. He was not comfortable with the practice of locking people up because that was how prisoners were treated. He also understood that you could lock one's body but not his heart. When I visited the company the first time, I discussed this problem with him. We agreed that the workers left their positions because they were not informed the rules and did not understand the importance of staying with their positions. Also there should be measures to discourage people from leaving their position. Two weeks later, I visited the company the second time. The general manager told me with excitement that he unlocked the door and everything worked out well. Prior to unlocking the door, he informed all employees that for their benefits (fire hazardous and humane treatment), the door of the workshop would no

longer be locked. To maintain a normal production, workers should not leave their positions during the work hours. One would be fined for ten yuans for leaving his/her position. After the announcement, the door was unlocked. In the morning of that day, there were about a dozen of workers who left their positions. The general manager told them that they would not be fined because it was their first time. He further advised them not to leave again or the fine would be definitely enforced. In the afternoon, there was only one worker who left his position. He did so because he did not come to work in the morning and did not know the rules. Since then, there was no worker leaving their positions during the work hour and the door of the workshop remained open. This example shows how motive and ability work together in solving a problem. It is critical that one needs to have a desire to take actions. Equally important, one also needs to have necessary ability to know what specific actions to take.

In addressing the cause of a business problem, some outstanding entrepreneurs could come up with very novel solutions that others were not aware of. It is the evidence of higher level of conceptual ability. Yilong Company of Shangze Township, Wujiang City was a star enterprise of the nation. It had an annual output of two billion yuans in 1994. The problems faced by the general manager were that most employees belonged to different functional departments and worked on three shifts, morning, afternoon, and evening. Those who belonged to the same functional department but were on different shifts rarely met each other at work. Thus, once there were issues that needed to be addressed to all people of the same functional department, it was an impossible task because there was no way to reach all of them at the same time. Furthermore, the people

in charge of each functional department either worked in regular office hours from eight to five or on one of the three shifts. If there were problems that needed the coordination of several functional departments, then it frequently had to wait until all relevant people were able to get together. The situation was aggravated by the fact that Chinese rural enterprises usually had very small management teams. It was impossible to assign each shift a middle manager for each functional department because there was just not enough people. Furthermore, the rapid growth in business size made the coordination and communication more and more difficult under the existing structure.

Facing those problems, the general manager came up with an idea to create an overlap organizational structure based on work shifts rather than on business function. Under the new structure, in addition to one's functional department, an employee also belonged to a department that covered those who worked on the same shift. For issues that need to have everyone involved, shift organizations rather than functional departments would be in charge. A typical example was that the grass-roots Party organizations used to be in each functional department. Since people worked on three shifts, those organizations could never function together as a whole. Under the new structure, the Party organizations were put on each shift. Also for each morning, afternoon, and evening shift, there is a management team to deal with all problems during the shift. Once problems happened, they could be dealt with immediately because people in charge were all on the spot. Thus, by addressing the common cause, several problems were solved simultaneously. Imaging if the entrepreneur had to deal with those problems on one-by-one basis, he could be easily overwhelmed and had to exhaust all his personal

resources. The local official told me that everyone was amazed by this new idea. People also wondered how come no one else could think of a similar idea.

The same entrepreneur also demonstrated on other issues of his strong ability to tackle the cause of a problem. For instance, when I visited Shengze Township, the Yilong company was conducting a major expansion project. After the project was completed, the company would acquire the capability of fabric fine processing with the best equipment in the world. The primary goal of this project was to improve the profit margin of the company. Because the entrepreneur recognized that the largest profit margin of his field was in fabric fine processing, he locked it as the key area of improvement. A local official accompanied me when I visited Shengze. He said that at several critical moments, the entrepreneur correctly identified the key issues and acted decisively. That was a critical factor that the company could grow to a huge size in a very short period.

Conceptual ability is also related to the cognitive process of accumulating and applying knowledge and experiences. It identifies the similarity or difference among problems and situations. If similarity is noticed, it implies that the previous experiences, either successful or unsuccessful, can be applied. If difference is noticed and no previous experience existed, then one has to search for solutions under the novel circumstance. If one is unable to notice the change and acts as usual, then the incompatibility between one's action and situational conditions will cause harmful consequence to business. If one is unable to notice the similarity between situations, then the accumulated experiences and knowledge cannot be utilized effectively. One has to pay the price of repeat learning. The entrepreneur of bleaching dying company in Jinjiang City described himself as a

person who made many kinds of mistakes but rarely repeated a mistake. His description of himself fits my and other people's observation fairly well. Nonetheless, in order to do so, one needs a fairly strong conceptual ability. The ability to recognize the similarity among situations and problems is the prerequisite to avoid repeating the mistake. For those who make few kinds of mistakes but repeat the mistake many times, they might be incapable of recognizing those similarities.

Another example of noticing the similarity among different situations and applying the previous knowledge was provided by an entrepreneur at Taoyuan Township of Wujiang City, who was a school teacher before entering the business world. He told me that managing a company was the same as managing a class. He found that a rule of thumb he learned from his teacher helped him greatly in managing both a class and a company. His teacher said: "Discipline is the most critical factor to achieve anything in a class. If there is no discipline, nothing can be done." He successfully used this rule in teaching and became a model teacher. When he took over the company, he recognized that discipline was very important to maintain an orderly and quality production process as well. He told me that the poor quality of products in many rural enterprises was primarily due to lack of discipline. People just did not follow the rules. Thus, he made great effort to establish discipline within his company. He considered a well-maintained discipline an important factor contributing to the success of his company. He was also very grateful to his teacher for the knowledge he learned.



Conceptual ability and growth potential: Simplifying complex situation

The importance of conceptual ability increases as the size or the complexity of a business grows. The entrepreneurs of larger business usually demonstrated stronger conceptual ability than those of smaller business. Since most enterprises in this study were established during the same period, the companies that reached larger size usually enjoyed higher growth rate than the smaller ones. As a business grows in size, the problems that one has to deal with increases rapidly in number. A strong conceptual ability allows one to categorize problems and simplify complex situations. Through categorization, one can divide problems into several groups. Then by dealing with a group of problem instead of an individual problem at a time, the work-load would be within the limit of one's cognitive capacity. At the initial buildup stage, entrepreneurs rarely need to categorize the problems in business operation. A smaller business size means fewer problems. An entrepreneur usually could cover every detail of business operation. The general manager of Lilang Garment Factory at Qingyang Township, Jinjiang City, laughed at his own practice in handling the finance of his company at the early time. He called his practice as "Niurouzhang (beef bookkeeping)." It means that there was virtually no accounting procedure. All the money was put in one place. No one monitored the amount of money had been made or had to be paid. The only thing he knew was that at the end of a year, there was a lot of money left and that was their profit. His situation was representative of most rural enterprises at the early stage of development. He told me that he could no longer afford to handle the company finance that way. The business had grown to a substantial size. The amount of cash flow was much greater. Any

mistake in management could cause substantial loss. Thus, a procedure to monitor the financial situation was established. Payment and receivable were dealt with separately. Cost of production was carefully calculated. This entrepreneur represented an example that one was capable of categorizing business issues when it was necessary. However, there were many entrepreneurs who still handled the finance of their companies in a primitive way. A chaotic accounting situation was a common problem for many average rural enterprises.

If an entrepreneur is weak in conceptual ability and has to deal with the growing number of problems on individual basis, he can be easily overwhelmed and the operation of business will be in disarray. Intimidated by the number of problems that had to be addressed for a larger size business, many entrepreneurs would not expand their businesses. I asked several entrepreneurs about the reasons that they would not expand. Their answers were the same in essence: "Guan Bu Guo Lai (cannot handle)." A local official of Shengze Township, Wujiang City, told me that many entrepreneurs preferred a smaller size of business because they could control all aspects of their businesses. They would feel uncomfortable if they had to deal with larger number of problems. At Anhui Township, Jinjiang City, local officials told me stories that reflected the similar issue but from a different perspective. They said that many companies were in a chaotic situation because there were too many problems and entrepreneurs could not cover all of them. Consequently, many problems were left unattended and hindered the development of businesses.

Conceptual and analytical abilities: Delegating responsibility

Delegating one's responsibility to subordinates is a critical issue when a business grows bigger. At that stage, it is out of the capacity of an individual to handle every details. A successful delegation requires a fairly strong conceptual ability and an optimal level of analytical ability. Conceptual ability is needed to categorize activities according to different business functions and be clear about the boundaries of his own role and the roles of subordinates in business operation. Analytical ability is needed to understand the interdependent relationships among those functions and prioritize each function in terms of its strategic importance to his company. Basically, an entrepreneur needs to delegate basic operations to subordinates, act as a coordinator among major functions, and concentrate himself on strategic issues.

When I did the field research in 1994 and 1995, most enterprises I visited had passed the initial built-up stage. Among the entrepreneurs I interviewed, many of them had difficulties in delegating. Even several entrepreneurs of larger size businesses could not delegate well. Their explanations were that they did not trust others and were afraid that subordinates would ruin everything. My observation suggested that those people actually were not clear about what to delegate and how to coordinate after delegation. Thus they either kept their businesses at a smaller scale so that they could control everything or stretched themselves to cover everything. The general manager of Steel Modeling Company in Longshui Township, Dazhu County, told me that every purchase of the company had to be approved by him, no matter how trivial the purchase would be. This was an outstanding entrepreneur in many aspects but not in delegating his

responsibilities. He managed to cover major business issues by acting as a workaholic. A local official, who accompanied me to visit the company, told me that the entrepreneur worked too hard and he could not keep doing that for a long time. The similar stories were also told by a government official I met in Tong County of Beijing. He said that in some companies, without the approval of general managers, people could not even buy a broom.

Wanshida Garment Company of Yinling Township, Jinjiang City was a business of larger size. In 1994, it had about four hundred workers and annual output of about one hundred million yuans. The company only had a managerial staff of four: the entrepreneur, his wife, and two other persons. In our discussion, the entrepreneur complained to me that he was really tired and understood that he needed the help of other people. However, in practice, he was still trapped in a mentality that he had to control everything. He appeared to have difficulties separating the part of his previous responsibility that should let other people take the charge. During the interview, he asked me to recommend someone for the general manager position and I did that a few days later. After several rounds of negotiation, I learned that they were deadlocked on the salary issue. Though the entrepreneur was impressed by the person I recommended, he would only start at a very low level of pay that was not appropriate for a general manager. In his mind, there were only two categories of people within a company, the owners and the labor workers. His offer showed that he treated the general manager position almost the same as an ordinary labor worker. It was very difficult for him to accept that a skillful managerial staff belonged to a different category and should be treated differently.

According to him, he had started to search for a general manager for a quite long time but had not found one. While he complained about the difficulties in finding competent candidates, it should be reasonable to infer that his reluctance to offer differential treatment was a major reason.

By a sharp contrast, there was another garment company of the similar size and just a few blocks away from Wanshida Company, called Lifushun Company. Its entrepreneur clearly understood that he could not cover everything once the business grew to a significant size. About half year ago, he hired a general manager. When I visited the company, I met both of them. The general manager was a very mature young man of twenty-eight years old. He told me that he was primarily responsible for managing the operation of the company. The entrepreneur's responsibility was mainly to deal with clients and local government. He appeared happy to work in this company because the entrepreneur really delegated him with a substantial amount of responsibility. When asked how much his salary was, he would not give the exact number but admitted that it was very high. The Hengan Woman Product Company of Anhai Township, Jinjiang City, was also very generous in compensating its key managerial staffs. For instance, the company had many branches across the nation. Its branch managers were offered company stock for one hundred thousand yuans in addition to their regular salaries and other compensations. This was a critical factor for the fast spread of its business nationwide because it was able to attract competent people.

Conceptual ability and business growth: Seeing the big picture

The ability an entrepreneur to take a strategic perspective in dealing with business issues affects the growth potential of a company. To think strategically requires a higher level conceptual ability of perceiving one's business as the integrated part of a bigger system. An entrepreneur should be able to look beyond the small world of his own company, consciously recognize that his business is interdependent with other organizations through bigger systems, and organize his business activities as an integrated part of bigger systems. The concept of virtual organization is an example in this regard. It refers to the relationships among functionally interdependent but physically independent organizations. The behavior of those organizations are regulated by their functional interdependence as if they were the integrated parts of a virtual organization.

To some extent, thinking bigger is a precondition for achieving bigger. Mao Zedong always wanted Chinese to have their country in mind but determine their actions from the perspective of the whole world (Xonghua Zugou, Fangyan Shijie). Of course, not everyone who thinks bigger could achieve bigger. Nonetheless, if one cannot think bigger, it would be very difficult to achieve bigger. If one has no dream, one cannot have a dream come true.

Although rural enterprises are also called as township and village enterprises, some entrepreneurs would never consider their businesses just the parts of village or township economy. Instead, they always looked at business issues within a scope of the whole society, the international community, or the whole industry that one's business was specialized in. They could do so even when their businesses were at the very early stage

of development. By recognizing the relationship of one's business to a bigger system, the entrepreneur would operate in that scope. Thus, the bigger a system is, the larger the territory for business activities, the more difficult to operate a business, and the greater the reward for success would be. If one recognizes that his business is an integrated part of the nation's economy, then he should know that his market and resource base can be nationwide. Also he has to compete with other businesses nationwide. If one identifies his business with the international community, then he should compete with international players for the shares of markets and resources. If one could only perceive his business as a part of local community, then he would not try the opportunity beyond the local boundary and could not realize that outside businesses are the potential competitors. When the outside competitors do not invade the local market, these businesses operate comfortably within the local boundary. Once the competitors with the support of a broader market and resource bases decide to invade the local market, those locally bound businesses would have few choices but surrender.

Professor Zhou Hongda was the deputy director of Chinese Rural Enterprises Management Training School at Langfang City, Hebei Province. He had followed the development of rural enterprises for a long time and knew this phenomenon very well. We had a thorough discussion regarding the requirements on rural entrepreneurs at the different stages of development. In terms of his own research, he summarized four stages that imposed different requirements on rural entrepreneurs. His observations suggested that thinking strategically was critical when a business grew to a higher level.

At the first stage, it called for "able to do it" type of entrepreneur. When rural enterprises just started to develop, there was a huge vacuum in the market. Every product was in high demand, even though the quality was relatively poor and the design was primitive. Anyone who had the courage to take action could fit the role of an entrepreneur. The requirement of the second stage was "able to do it well." Because when several businesses produced the similar products, those who could do better would enjoy competitive advantages in the market. Under such a circumstance, those who understood the technical issues of production or knew how to get technical support would fit the role of entrepreneur. The third stage required an entrepreneur to "be able to sell it." When several businesses were able to produce products of similar quality and variety, the marketing effort was critical for business development. At this stage, it would not be enough for just focusing on activities within a company. A competent entrepreneur needs to perceive his customers as an integrated part of business. Finally, the fourth stage calls for "modern entrepreneur." Those were the people who could take long term and strategic perspectives in addressing business issues. Their business decisions were based on the concerns of strategic importance rather than responding to immediate benefits. Zhou believed in that the entrepreneurs who could meet the fourth stage requirement were the future of rural enterprises. If judged by one's cognitive ability, starting from the third stage, the conceptual ability becomes important. To meet the requirement at the third and fourth stages, an entrepreneur should be able to free his attention from tangible and immediate details. Within the company, he needed to coordinate major functional units and operated the business as a whole. In relation to external business environment, he

needs to recognize and address the interests of other organizations or groups that had critical impacts on the future of his business. Thinking strategically is in fact the core of the fourth stage requirement. In reality, the four stages rarely happen in sequence. Entrepreneurs may demonstrate abilities required for several stages in the same period of business development. Nonetheless, these four types of requirements do reveal the importance of conceptual ability at the higher level of business development.

For instance, the entrepreneur of Hengan Women's Product Company demonstrated that he was capable of meeting all those requirements when necessary. At the early stage, he was courageous enough to quit his small and comfortable garment business and venture into the unfamiliar territory of producing women products for he perceived a brighter future in this field. Once in the business, he wanted to do it well. He would use best material and get help from technical people to make top quality pads. In order to recruit people with much needed specialty, he would not hesitate to have them to join the company even if the decisions could offend his brothers and relatives. After he was able to produce quality products, marketing became a critical issue for the further expansion of his business. His marketing approach was not just to sell products. Instead, he consciously made effort to increase the market share and the geographic coverage. He worked hard to establish long-term relationship with key customers, set up branch companies in major cities, and publicize products through advertising. While making key business decisions, he would not restrict his thinking to the immediate outcome. Instead, he would consider factors that had a long term impact on the business, such as the trend of political environment and the changing demand of consumers. Within the company,

the decisions to upgrade production equipment, recruit competent employees, and establish a modern management system were all guided by the projected future development (Fu, 1992).

Among the entrepreneurs I interviewed, the general manager of the bleaching dying company had a unique theory about the relationship between a business and the society. It is a good evidence of his strong conceptual ability to perceive his business as an integrated part of a bigger system. According to him, a business is a member of the society. Whether a business would be accepted by the society depends on what it can contribute. If a business contributes what the society needs, then it would be allowed to exist and develop. Or it will be eliminated by the society. For those failed businesses, the primary reason is that they could not contribute accordingly to the need of society therefore lost their legitimate right of existence. The more a business contributes, the better its position would be in the society. Thus, the key for business development is to identify what the society demands and act accordingly. In his opinion, the most important contribution a business could make is to provide quality products demanded by the society. It is the primary reason that the society needs that business. Besides this primary demand, he also recognized other critical issues. For instance, a company should promote societal progress, support community development, and care about the welfare of its employees. He thought that many companies did not care about quality was the action of no-brainer and cheating the society. Sooner or later, they would be eliminated. He attributed his effort to improve the product quality as responding to the demand of the

society. His actions in supporting community projects, beautify the environment, respect labor workers, and support cultural activities were all explained by the same reason.

Though many of his actions appeared idealistic, he was a pure businessman. In his own words, if there was no business benefit, he would not spend a penny on a project, no matter how fancy it would appear. Nonetheless, his ability to take a broad perspective to look at business issues allowed him to tap the resources that were not evident if one narrowly focuses on some immediate benefits. I stayed in this company for about two months. Apparently his actions produced tangible business benefits, such as improving the moral of work force and attracting the support of local government.

The general manager of the packaging material factory in Shengze Township, Wujiang City, was an outstanding entrepreneur in many aspects. He was a smart and energetic person. When asked about his long term plan for the company, his attention was primarily within the scope of the village he belong. Besides his position in the company, he was actually in charge of all activities of that village. He did show a certain level of conceptual ability because he had a detailed and long term plan for the development of the village in terms of its industry, agriculture, social welfare, and infrastructure.

However, the scope of his strategic plan was narrow. He told me that he never thought of issues beyond the scope of his village. I asked whether he planned to expand his business into other geographic areas, he replied no. He said he would be very satisfied if he could manage the village well and saw no reason to expand. In fact, his business had a very good potential to expand in terms of market demand for his product. Because he only perceived it as a part of the village economy, not a bigger system, the growth potential of

the company was limited. Though the company could be excellent on many business indicators, it would remain as a small village business as long as the manager confined his attention within the scope of his village. This might post some potential threat to the company from a long run. If a company with bigger market and resource base decides to compete, it is very likely that his business could lose its independent status.

By comparison, the general manager of Yilong Company at the same township was a person who wanted his business become bigger and bigger. In order to do so, he had to position his business in a larger system that was big enough to absorb its products and supply it with resources. When his business grew to a significant size, he started to aim at the international market (including the domestic market) and drew resources from that scope. Many of his actions showed that he clearly understood the interdependent relationship of his business with other organizations through the bigger system. For instance, he created system to collect market information, formed alliance with state research organizations to design new products, cooperated with education institutes to train employees, and established long term cooperative relationship with Japanese companies for technical support and training. Those actions suggested his strong strategic ability in addressing the business issues.

The difference in people's ability to perceive the position of a business in a bigger system can create conflict in strategic planning for a company, particularly for collective enterprises because they were under the management of both local officials and entrepreneurs. The Dongfang group in Taoyuan Township, Wujiang City, was a star company with an annual output of more than five hundred million yuans in 1993. Its

general manager recognized that his company was an integrated part of the nation's economy and had close relationship with the world market. In our discussion, we talked about where the future headquarters of the company should be located. His idea was to relocate to a major commercial center, such as Shanghai City, so that the decision center could be close to the sources of information. At the meantime, the production base would remain at the local community to take advantage of cheap labor, land, and local government support. However, the township officials did not like the idea of relocating the headquarters. They only considered the company an integrated part of the township economy and could not understand the importance of positioning it in a bigger system for the sake of its growth potential. They could not recognize that by confining the company within the local community, it could hurt its development potential from the long run.

3. General intellectual ability.

The discussion on analytic and conceptual abilities shows that intellectual abilities have significant impacts on the behavior of rural entrepreneurs. Outstanding entrepreneurs tend to display stronger intellectual abilities than the average ones do. Particularly, the conceptual ability of an entrepreneur is a critical to the growth potential of his/her business. Besides those specific abilities, the qualitative evidence also shows that the general intellectual ability of rural entrepreneurs affected their business performance as well. For instance, outstanding entrepreneurs usually were quick learners. They could quickly grasp new knowledge and apply it to business operations. There were many rural entrepreneurs who ventured into the fields in which they had little knowledge.

When they started businesses, what they knew often limited to a vague sense about the business potential in the fields they chose. Once they ventured into the new territory, the ability to quickly grasp the essence on technical issues was a critical factor that determined whether they could take proper actions to realize the profit potentials. Though entrepreneurs might get help from experts, they themselves had to have basic understandings of technical issues to make right decisions. Also, weak intellectual ability in grasping new knowledge can be a factor to prevent many entrepreneurs from attempting new business opportunities.

Several entrepreneurs I interviewed showed reluctance to try business opportunities in unfamiliar fields. Their explanations were that they had little knowledge about technical issues. By contrast, the entrepreneur of Hengan Woman Product Company showed different mentality. When he recognized the weak growth potential of his existing business and the bright future of a new business opportunity, he did not hesitate to switch to the new and completely strange field. A young entrepreneur of The Third Plastic Company at Shaxi Township, Taicang City told me that they knew nothing about their products when their company started. However, as he put it, they did not understand science but respect science greatly. Thus, they would act seriously and learn quickly. They asked for help from the experts of a state research institute and grasped the knowledge quickly. In our discussion, the young entrepreneur proudly told me a story how he got an up-hand in the argument with an American company over some technical issues. This enterprise ordered a set of equipment from that American company. Once the machines arrived, they found out that the equipment was not manufactured strictly

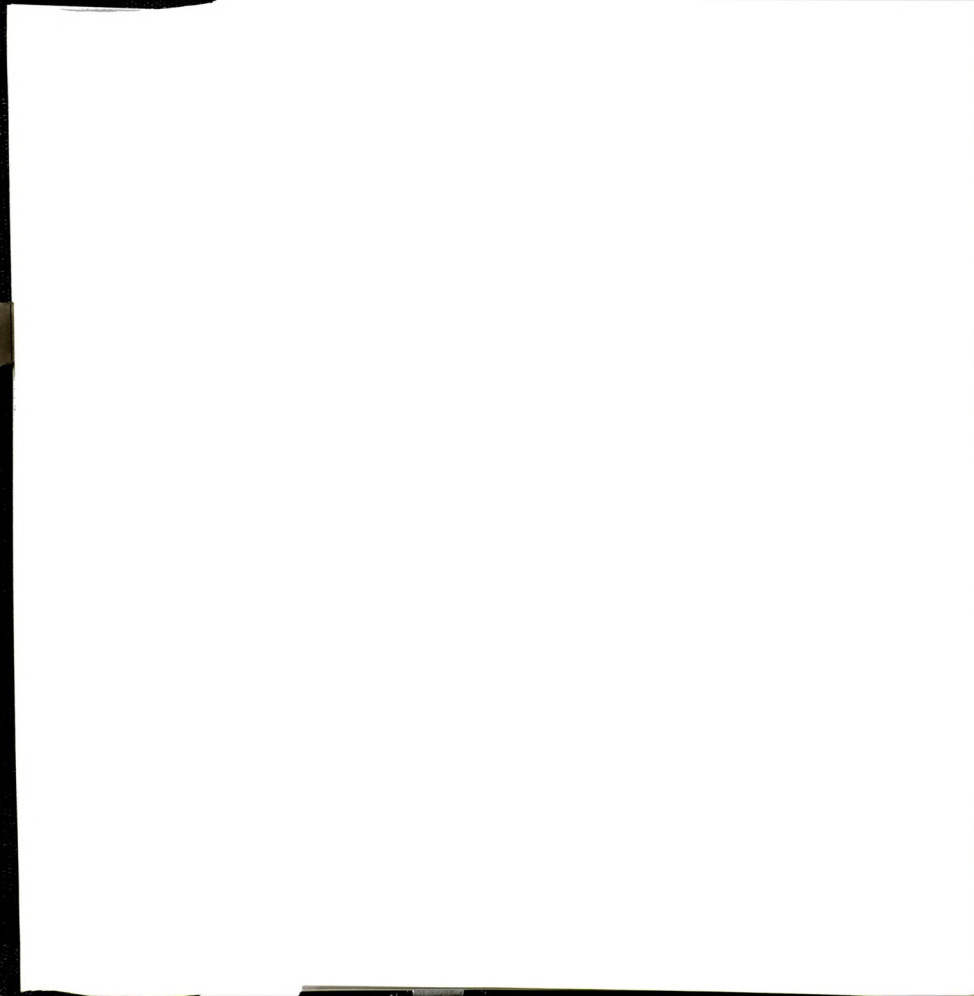
according to the design. Consequently, it caused some difficulties in operation. The deficiency in equipment was picked up by the young entrepreneur and informed the American company. Facing the fact, the American company agreed to fix the problem. In telling the story, the young entrepreneur was very proud that he argued with American experts and won the battle at the end. Traditionally, rural people were very easily intimidated by the experts over technical issues because they were lack of expertise on modern technology and were not confident to argue with experts. Also, there was a stereotypical view in China that the US was the most sophisticated and advanced nation in terms of industrial technology. Thus, by standing up against an American company over technical issues, the young entrepreneur demonstrated his confidence in his own expertise. Because his expertise was built on a weak knowledge base (He did not have any college education) in a short period, obviously, he was a quick learner.

The general manager of the bleaching dying company was a good example of superb learning ability. He only achieved formal education at the level of elementary school and knew nothing about the technical issue of bleaching dying process. At the early stage, he had to fully rely on the chief engineer to make decision on technical issues. Nevertheless, he learned very quickly and soon could make meaningful strategic discussion with the chief engineer on technical decisions. The chief engineer and his wife, also an engineer in the company, told me that the general manager was very quick in understudying the technical issues though he might not reach the level of sophistication as the chief engineer and there was no need for that as well. While discussing technical issues from a strategic perspective, the chief engineer truly felt that they were equal

players. His quick learning ability also demonstrated in other aspects. For instance, before the company started, he could only speak Chinese in the local dialect and was not good at mandarin at all. This created difficulties in communication with people from other parts of the nation because the local dialect was very difficult to understand. In order to extend his business activities beyond the local community, it was necessary to improve his language skill. Facing this problem, he started to learn mandarin and progressed rapidly in few years. When I did my study in his company, we could talk to each other in mandarin on every issue with no difficulty. I was also told that his handwriting used to be very poor and he decided to improve it. This information really surprised me because his handwriting I saw was much better than many college-educated people.

A local official of Jinjiang City said to me that rural entrepreneurs should be respected for their intellectual ability. They might be low on formal education and lack of knowledge in many aspects. But they were so quick in grasping business related knowledge. The rural enterprises of Jinjiang City were famous for its garment industry. At early time, local people had no expertise whatsoever on clothing materials. The situation changed quickly because they learned through doing business. The official said that now many people were very good at clothing materials. They could tell you a lot just by looking at a small piece of sample.

The previous discussion showed that some entrepreneurs were incapable of delegating their responsibilities to their subordinates as their businesses grew in size. If we take a different perspective, this weakness is also the evidence of their strong intellectual ability on other aspects. That is, those entrepreneurs were capable of tracking



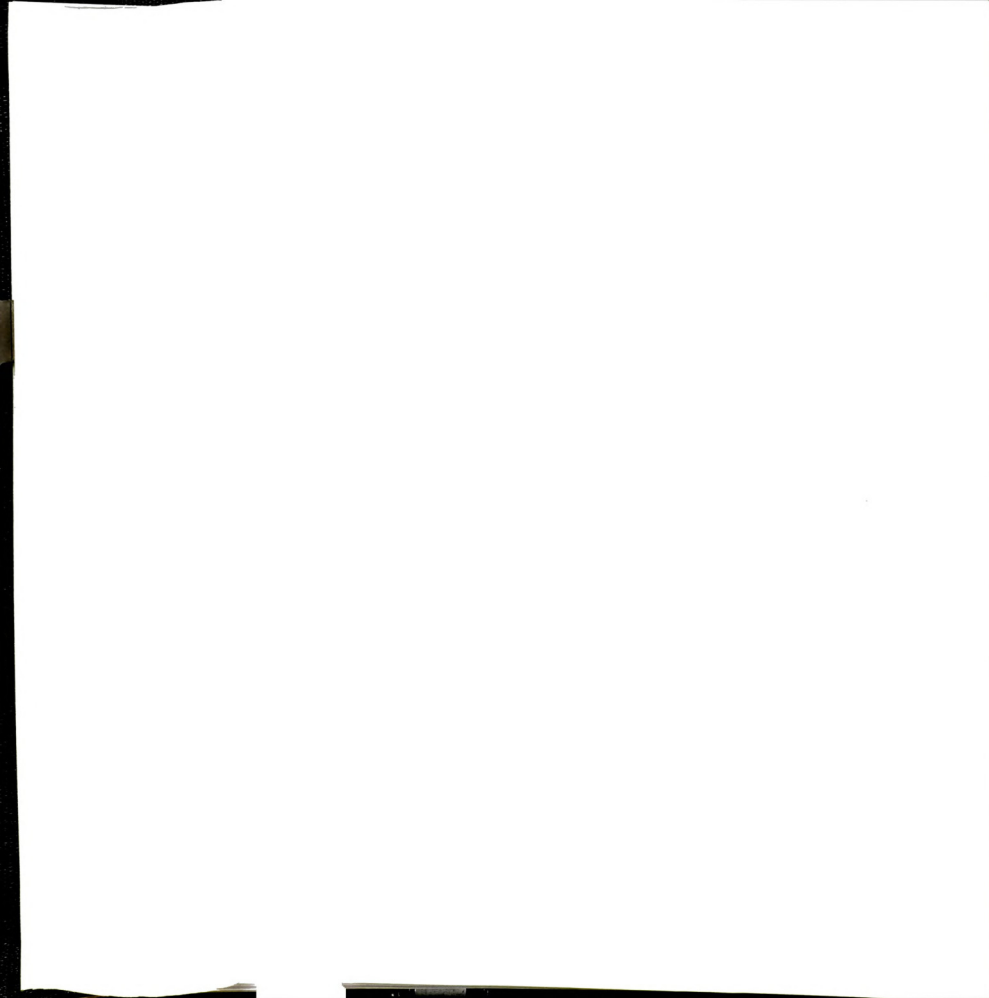
the growing number of problems as their businesses expanding. It is true that they were tired and overwhelmed. Nonetheless, they were still capable of hanging on and maintaining the normal operation of their businesses. Wanshida Garment Company just discussed is a good example. It had about 700 workers and a managerial team of only four, including the entrepreneur as the general manager and his wife as inventory manager. For a business of this size, the entrepreneur still handled most business activities himself. An interesting phenomenon was that when government officials visited his company, he had to get some labor workers to fill in the normally empty office building and pretended as managerial staffs. Nonetheless, his business was doing very well under such a huge pressure. The pressure for managing a company at such a scale alone was about to break his limit but was still under control. This fact can only be explained that he had strong intellectual capabilities that allowed him to deal with the enormous amount of information. For ordinary people, it could be very hard to do that. A similar phenomenon was observed in Steel Modeling Company in Longshui Township, Dazu County. Although it had much more technical and managerial personnel, the general manager would deal with many detail issues of business operation by himself. He was almost overwhelmed and had to work very hard. Nonetheless, he was still capable of controlling the situation. If he did not have a superb intellectual capability, it was impossible to handle a large business in such a manner.

As a group, a distinctive feature of Chinese rural entrepreneurs was that on average, they received little formal education. For instance, among 176 rural entrepreneurs in the survey, only 42 (24%) have above high school education, 49 (28%)

completed high school, and 85 were below middle school. This sample is skewed in terms of formal education because those with low education level were not used to attend a formal seminar. The actual education level of Chinese rural entrepreneurs should be much lower than that of this sample. If broken down by geographic locations, the entrepreneurs in Wujiang sample (58% or 43 persons were above middle school) had a higher average formal education level than those in Tongliang-Dazu sample (50% or 21 persons were above middle school) and Jinjiang City (45% or 27 persons were above middle school). The low level of formal education attained by rural entrepreneurs provided those, who were hostile to rural enterprises, with a topic to express their frustration toward the success in this sector. They would say that those who became entrepreneurs were primarily because they could not succeed in school. By doing so, they tried to discount the success of rural entrepreneurs because traditionally excelling in school was much more valued than business success in Chinese society. Even rural entrepreneurs themselves would be bothered by their low level of formal education. They were apparently uneasy when this issue was touched and attributed the fact to that they were poor and had to take care of family, etc.

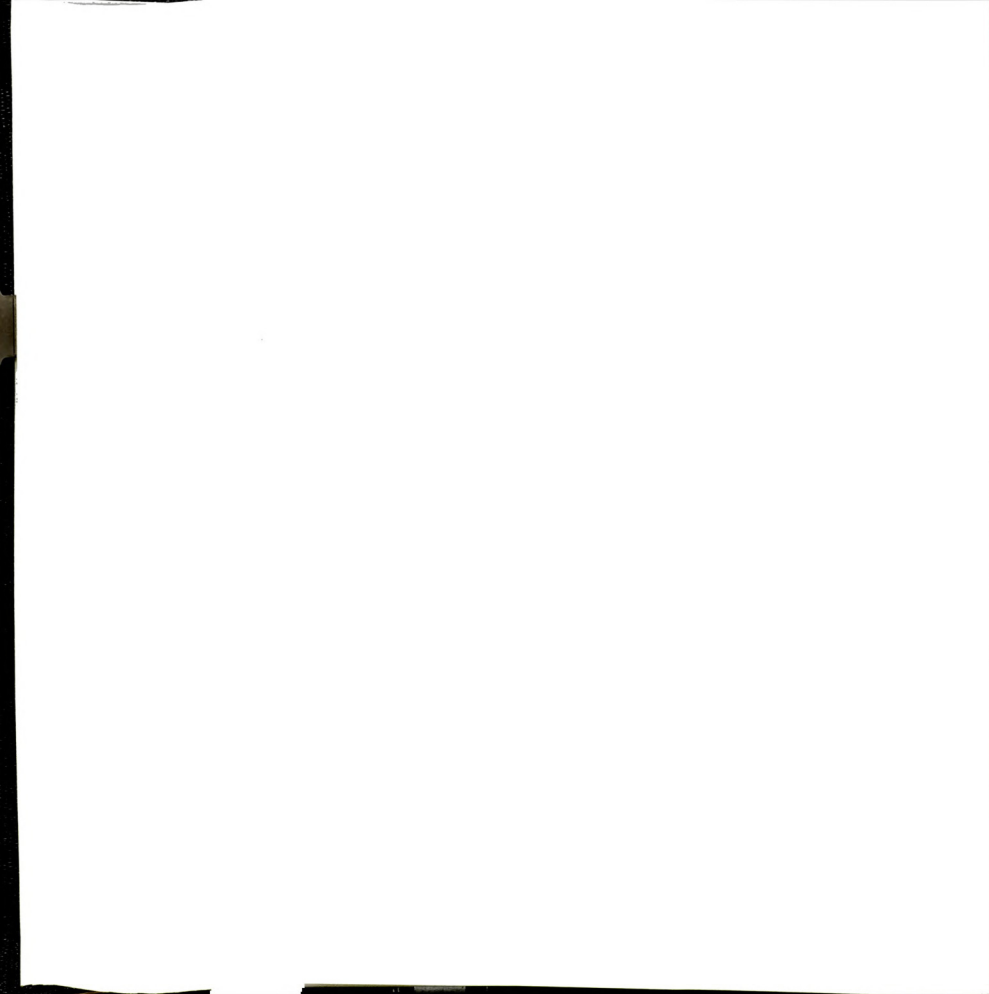
On the other hand, although rural entrepreneurs had the low formal education level, many of them quickly grasped useful knowledge for business operation after their businesses started. This reality actually indicated a fairly strong intellectual abilities. The lack of formal education to some extent and under the given circumstance was actually beneficial for rural entrepreneurs to fully utilize their intellectual ability in business activities. In addition to stimulating the desire to excel, Chinese school education has a

tradition of emphasizing obedience, following rules, acting within the boundary, and respecting the past and authority. The ideal students are those who can achieve excellent grades and would never contradict teachers (Wufeng Jia Mianyang). Those behaviors are apparently incompatible with the requirements of entrepreneurial activities that emphasize innovation, breaking traditions, challenging the status quo, and responding to reality rather than following the pre-inscribed rules. If one's behavior is fully shaped by the formal education, he would be incapable of acting properly to meet the entrepreneurial requirements, though he might be intellectually very capable of doing so. This could be a reason that fewer people with higher education have successfully entered entrepreneurial occupation in China since early 80s, compared with the achievement of rural entrepreneurs. On the contrary, most of the rural entrepreneurs spent their childhood and teenage time to deal with the tough challenge in the society. Through their life experiences, they learned to respond the demand of reality in pursuing their dreams, compete for resources rather than politely waiting for one's share, and be opportunistic rather than abide with established rules. When asked about what contributed to success, many entrepreneurs listed their experience from the society as an important factor. They regretted that they left school too early but admitted that their experiences to make their living under harsh conditions were critical to their business success. Through those experiences, they were trained to feel comfortable in fulfilling the behavioral requirements of entrepreneurial positions. That enables them to fully utilize their intellectual capabilities in business activities.



4. Strong mental ability to withstand uncertainty.

Taking calculated entrepreneurial risk is a basic requirement of entrepreneurial role. Nonetheless, just having the desire to do so is not enough. One also needs a strong mental ability to withstand the pressure of uncertainty. The willingness to take moderate risk cannot assure that one would not be panic or confused under the risky conditions. If one gets panic or confused, he might take careless or desperate actions, or simply withdraw from any attempt. In either case, it will not produce the expected outcome. Those better entrepreneurs I interviewed did show the emotional toughness while facing uncertainty. The bleaching dying company was operated on a huge debt. Various evidence showed that the debt may well over its assets. Although the general manager took many actions to knit a safe net to reduce the danger, such as establishing close relationship with key government officials, the huge debt is nonetheless a great risk for the business. Many managerial staffs were very nervous about the situation. The chief engineer told me that he was really scared about the possibility that some day, the company could not make the ends meet and had no way to pay back the debt. Others had the similar feelings as well. They frequently asked the general manager to be more conservative. Another major partner of the company told me that if some day they could not pay back the debt, the only solution was to hang themselves. He really did not like the way of operation. By contrast, the general manager kept calm and cool headed under the uncertainty. He said it was no way to do big businesses without using bank money. I had a feeling that he himself was very much aware of the potential danger. Nonetheless, he was able to manage his feeling, stay calm, take various rational actions to move business



forward. Keeping cool headed is always critical to out run the risk in an uncertain situation. Getting panic can only increase the danger.

In many occasions, the general manager of bleaching dying company actually showed a positive attitude toward uncertainty. His business was established with the cooperation of a state research institute. At the negotiation, when the head of the research institute learned that they could not get the supply of yarn through the channel of state planning, she was puzzled and asked the entrepreneur how he was going to deal with this problem. For people worked in state organizations had used to obtain supplies from the state planning. It was very hard for them to think of other ways to solve the problem. To their surprise, the entrepreneur felt funny about this question. According to his logic, if he did not know how to get supply, so did others. That was actually opportunity to him because he could try his best to beat others and get supply. There was no pre-imposed limit about how much he could get. Everything would be determined by his own effort. If everything was predictable, then he would not have any opportunities. In Jinjiang City, I found a phenomenon in the markets that the price of goods usually was not marked. One had to ask venders for the price and the vender would tell you an outrageously high price. Then, both sides started to bargain until reaching an agreement. Most people from other places, including me, did not like the practice and thought it was a way of cheating. The general manager was laughing at those people. He wondered why they wanted the price marked. He himself preferred the other way. His philosophy was that if the price was marked, then one had little room to bargain. If there was no marked price, then he could use his strong bargain ability to get very good deals. He liked uncertainty because it

meant opportunity. In a situation where everything was predictable, there would be no opportunity for new comers. This view was echoed by many outstanding entrepreneurs I interviewed. It is actually consistent with the propositions of risk-taking model by Atkinson (1966), which states that the situations with the maximum uncertainty is the most attractive to people with higher n Ach. In order to function properly under uncertainty, a higher achievement motive and a strong mental ability may need to work together.

When people would not like the pressure of potential risk in business operation, they tended to prefer predictability over uncertainty. I met a group of entrepreneurs in Milou City, Hunan Province. They apparently were very aversive to uncertainty and would rather stay in the familiar field though they agreed that the growth potential was weak. In Cizao Township of Jinjiang City, I interviewed an entrepreneur of a very small and primitive ceramic tile mill. He should be considered as below average in terms of business performance. He told me that he did not admire those huge ceramic tile mills in the same township because they were all operated on huge debts. He thought that life under such a great pressure was miserable. Although the practice of operating on debt could bring needed capital to do business at a larger scale, he would prefer to accumulate capital through the production. He told me that if he was put under such a pressure, he would become insane. A similar theory was told by another entrepreneur of a ceramic tile mill as well. His company was much bigger but could only be considered as medium size compared with those huge companies in Zizao Township. He agreed that to operate on debt was a quick way of business development. At the meantime, the psychological

pressure would be too great to bear if the debt was huge. His theory was to borrow some money from the bank but no more than one-third of the asset. Then he would feel quite comfortable to bear the pressure.

Some entrepreneurs themselves would admit that their relatively weak mental ability to bear the pressure of uncertainty was the major cause that they lose the opportunity of business development. A star entrepreneur (Fan Wenying) in Shengze Township, Wujiang City, told me that there were opportunities that her business could grow very rapidly. Unfortunately, she was quite worrisome for the potential risks and not comfortable to accept the pressure. At the meantime, other entrepreneurs in the same township took brave actions and caught the opportunities. The woman entrepreneur admitted that those entrepreneurs were mentally tougher than she was in withstanding the uncertainty. It is interesting that she was not a person who would not take risks. When I interviewed her, the business was not very good due to the changing market conditions. I asked her why not she just retired and left all possible trouble behind. She said definitely no and wanted to fight to revive the company, even if she might fail and suffer bigger losses. Compared with some other outstanding entrepreneurs, however, her mental ability to withstand the pressure of risk was weaker. She told me that when others entrepreneurs' brave actions produced huge success, she realized that she needed to take action but the best time was passed. Thus, she missed the best opportunity to grow her business and wished that she could be more brave when the opportunity appeared.

To make a business grow bigger, an entrepreneur has to take some bigger risks, or one's business can only stop at a smaller scale. As discussed in Chapter 6, for a true

entrepreneur, if a bigger risk is taken, it means that his preventive and risk deduction effort should also be brought up to a compatible level as well. Then the risk he takes would be moderate. To make the preventive and risk reduction effort effective, the critical issue here is to keep calm under the pressure associated with bigger risks, then one could act rationally and get the best result from his attempt. In order to do so, it requires a strong mental ability to withstand the pressure.

5. Other-focused rather than self-centered.

As McClelland points out (1987), commitment to others is a distinctive feature that tells better entrepreneurs from the average ones. In terms of my observation, this is also true in Chinese rural enterprises. Better entrepreneurs tend to be sensitive to the concerns of other people who are important to his business and would regulate their own behavior accordingly. They would do so as voluntary rather than forced choices. Those other people may include customers, suppliers, government officials, and even labor workers.

It is easy to observe that when people are not at the center of decision making, they tend to be highly responsive to others' concerns, particularly those who may have important impacts on their futures. Once a person has moved to the center of decision making, the situation may change dramatically. Little attention would be paid to others' concerns and one's own agenda starts to be dominant in making decisions. Some rural entrepreneurs failed because they were slow in responding to others' concerns and often insisted on their own agenda, even when many signs suggested that they were moving

toward wrong directions. One plausible explanation is that they were less capable of acting on others' concerns when they were at the center of decision making. Outstanding entrepreneurs tended to demonstrate the ability of constantly controlling or monitoring his own agenda and focus his attention on the concerns of other people in dealing with business issues no matter whether they were at center or not.

In general, Chinese rural entrepreneurs were good at responding to others' concerns, particularly at the early stage of development. This strong collective ability of other-orientation owes its root to the life experience of rural people. Chinese rural area has been dominated by the traditional agriculture for long time. Under tradition agriculture, the production and output are largely determined by the nature rather than people's will. Furthermore, rural people are always in a marginal position in the society. They rarely have opportunities to intentionally exert their influence on others. In most case, they have to act in terms of other social groups' will rather than on their own agenda. Responding to the environment and to the influence of other social groups is the norm among rural people. When they started their businesses, their behavior naturally followed this tradition. For instance, the general manager of Lilang Garment Company in Jinjiang City described how they reached their customers at the early time of business. First, he would make several samples according to the styles shown on foreign fashion magazines. Then he displayed those samples at a free market. If a buyer was interested in some samples and put an order, he then would produce enough quantity as requested. This approach was widely used for the garment factories of Jinjiang City at the early time of development. Wujiang No. 2 Shoe Company in Baisu Township, Wujiang City, had

the similar story at its early development stage. In this case, the general manager carried a bag of shoes and displayed on the sidewalk of a business commercial district in Shanghai City. People's responses were very enthusiastic. Then he found the direction of production. It is not exaggerated that every rural enterprise was started in the similar way by being highly responsive to the demand of customers.

Nonetheless, what differentiate a better and an average entrepreneur from a long run is that the former would keep others' concerns as the major determinant of business actions even after his business has grown significantly. There were many stories that after initial success, entrepreneurs formed illusive beliefs that they had the right ways of operating their businesses because they were successful. Then they just stuck to old approaches and paid little attention to the changes in business environments, such as market trend, technological innovation, customer demands, industrial reorganization, and government policies. Very soon, they would found that their businesses were in big troubles. The decline of Wujiang No. 2 Shoe Company was a good example in this regard. Its general manager was one of the ten star entrepreneurs of the nation in 1987. Highly responsive to market signals was a critical factor accounting for its early success. On average, it used to be able to supply the market with two new designs every three days (Chen, 1988). However, after he became famous nationwide, the entrepreneur started to act on his own agenda and abandon its tradition of responsiveness to others' concerns. When I visited Wujiang City in 1994, this company was no longer an important player in the local community. I have several relatives in Baisu Township. In their opinions, an important factor that contributed to the decline of the No. 2 Shoe Company was that its

management spent too much money for showing-off. Those actions mainly served their egos rather than customers. An official in the Rural Enterprises Bureau of Jiangsu Province also agreed that the self-centered style of business operation was the main cause for the decline of this company.

In operating a business, a better entrepreneur rarely acts because "I want to do such and such." Instead, they always take actions because "I have to meet others' demand in order to reach business goals." Thus, they are very opportunistic and flexible to accommodate the demand of others. The Xunxing Company in Shenghu Township of Jinjiang City, was a star enterprise producing zipper. Its general manager held a belief that in business, if one was indifferent to others' concerns, a successful company could collapse in a short period of time. Reflecting this belief, the company made constant effort to develop new products to meet the demand of markets. An entrepreneur's effort in developing new products is a good indicator of how responsive he is to the demands of other people. Many outstanding entrepreneurs explained that if they did not keep developing new products, the customers would be tired of their old products. Also if other companies developed some new and attractive products, they could lose their market shares. Thus, they had to constantly think of what could keep their customer. On the contrary, I met several entrepreneurs who did not make significant effort to develop new products. They often complain that the customers were too picky and hard to be pleased. Their attitudes toward others' demands were that "Those were all I could offer. Like it or not, I had no control." In discussion, those people did not show strong enthusiasm to

sense the concerns of others and act accordingly. Instead, they preferred to staying with their own practice and not to be bothered by others' concerns.

Cheating customers is a common phenomenon in the business world, particularly in situations where there are no well-established rules and effective enforcement to regulate people's behavior. Chinese rural entrepreneurs are no exception in this regard. Because the whole Chinese society was in a transition period, old rules were gradually phased out and new rules had yet to be established. The external pressure on business people to act honestly was not strong at the early stage. Thus, cheating behavior frequently happened among rural entrepreneurs. The practice included shortage of quantity, using low quality products to substitute high quality products, and using fake and cheap materials. It was understandable that they used this approach as a way of quick capital accumulation. But the reality is that no company can be successful in the long run by cheating customers. A good entrepreneur understand this point and would give up cheating quickly once his business showed a promising perspective. During the interview, an entrepreneur in Yinling Township of Jinjiang City told me that he was cheated several times in doing business with now the general manager of Fengzhu Bleaching Dying Company when the latter was in business of trading cloth materials. When I did my case study in the company, the general manager became very concerned about the quality of products and the need of customers. He wanted to make sure that customers were well treated, satisfied with the products, and would continue business relationship. Some entrepreneurs I talked with even thought his present approach to treat customers was overreacting and showing off.

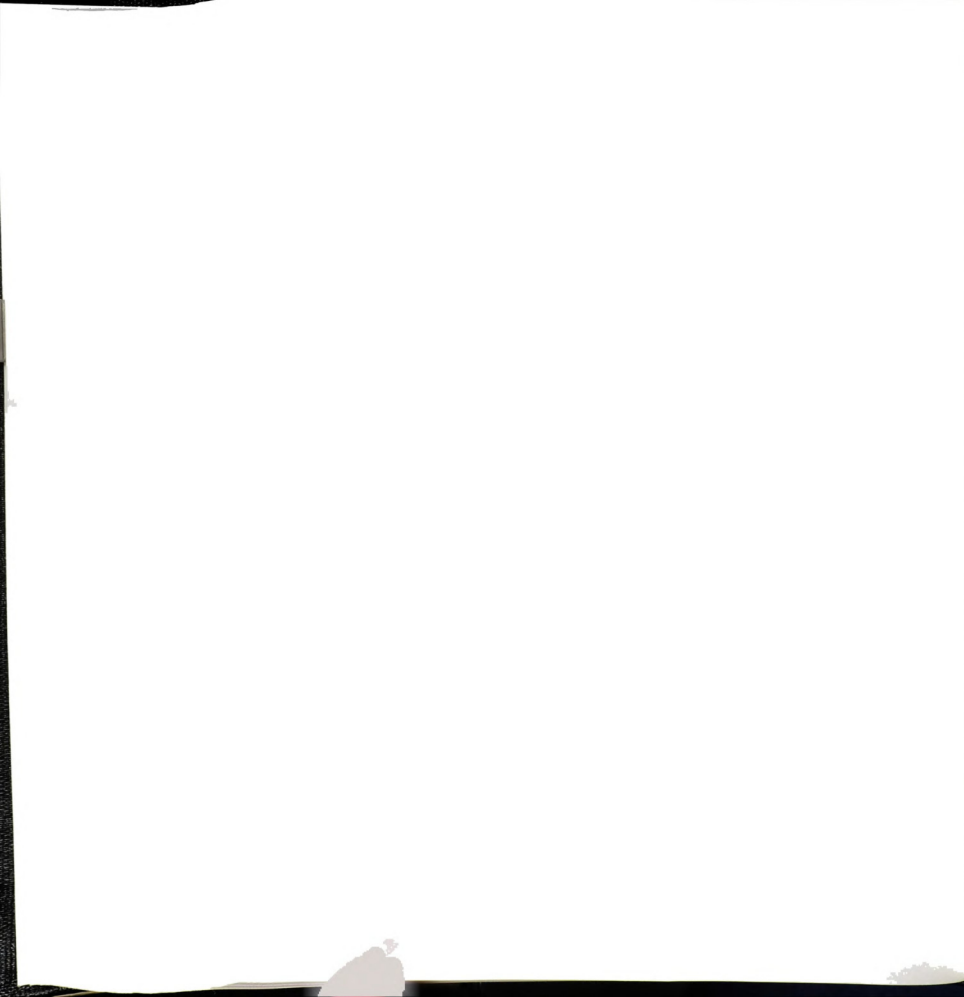
An important area of other-orientation is to maintain a cooperative and rational relationship among business partners. A company in Wujiang City used to be a star enterprise and enjoyed about the half of the US market for a medical product. At the time when I visited Wujiang, the company lost its momentum completely. The key factor that brought it down was the split of its management team. One major partner thought that he was not rewarded properly in terms of his contribution to the company and other partners did not take actions to deal with the problem. Then the grumpy partner left and started his own business that produced the same product. The internal conflict created serious problems in responding to the market. They lost their market share in the US quickly. Neither of the two companies did well after the split-up. On the contrary, the Fengzhu Bleaching Dying Company represented a different example. It had three major partners. Although each of them had different personality and specialty, they were able to treat each other equally and respect other people's contribution. My observation is that they cared more about how to accommodate others' concerns to make the business better rather than always asked: "was I treated unfairly by others?"

Family business is a popular form of rural enterprises, particularly among private enterprises. Unfortunately, there were many cases that family members could not get along with each other and split their businesses. After split, most businesses lost their momentum and went downward. A shoe factory in Jinjiang City used to be a very profitable family business. One day, the younger brother decided that he wanted to have his own business rather than worked with his elder brother and sister-in-law. He fought very hard to split the company. Finally he succeeded but the whole business were ruined

as well. Such an outcome broke the heart of his sister-in-law because she treated the younger brother very nicely. In this case, the younger brother acted solely upon his own ego and did not care whether it was good even to his own business. He paid no attention to other people's concerns that were important to his own business and failed completely.

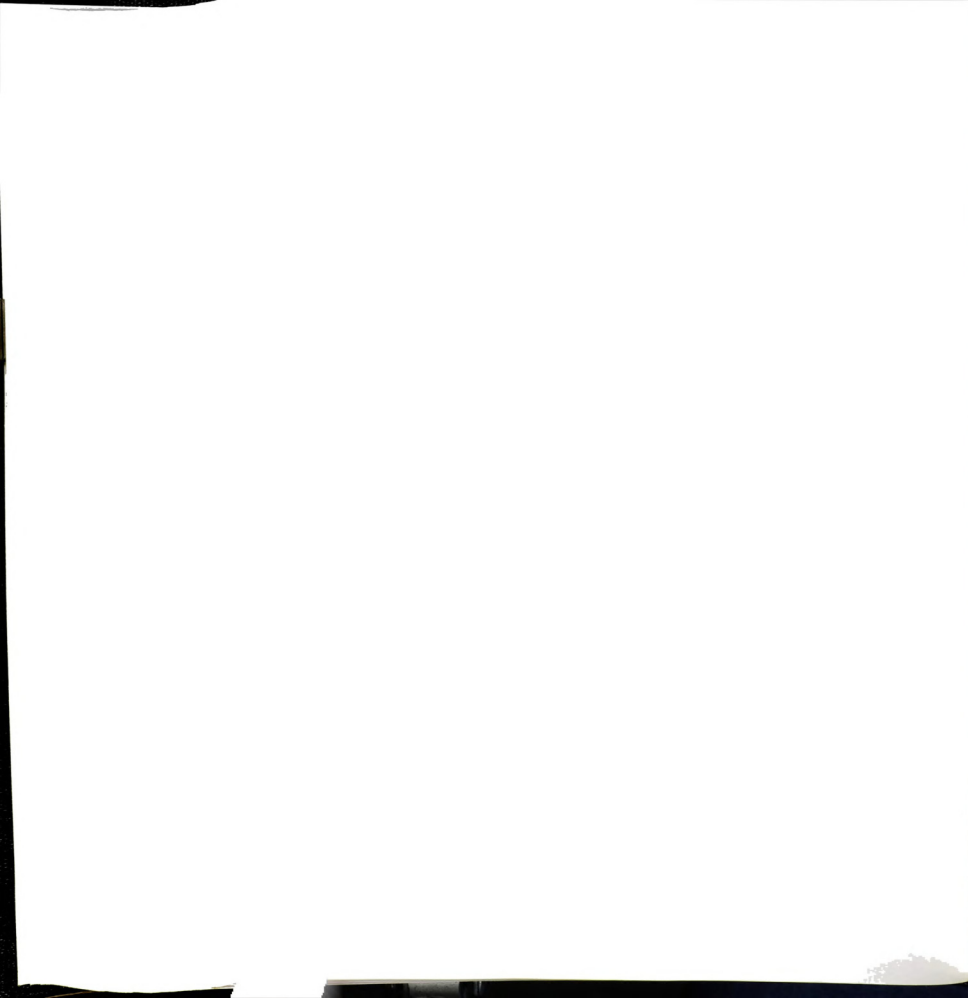
If family members could accommodate each other's agenda, then a family business can be very successful. Lilang Garment Company in Jinjiang City was operated by four brothers. The author met all of them when visited the company. When I talked to them, one could feel a harmonic relationship among them. Although the eldest brother was in charge, he would listen to the opinions of his younger brother and they would not hesitate to offer their opinions. Also the way they express their opinions was suggestive rather than conflicting or hostile. In addition to be cooperative, there are other ways to dealing with this problem as well. An entrepreneur in Yingling Township of Jinjiang City told me his philosophy on this issue. He thought it was suicidal behavior that family members split a company because a lot of hardware just could not be split. At meantime, he also held an opinion that sooner or later family members would not get along with each other. Thus, his approach was not to involve family members in his business.

A final note before moving to the next section: Although connection (personal relationship with important people) is very important to business, my observation is that social abilities, such as to present oneself verbally, to relax others, and to make jokes, do not differentiate better and average rural entrepreneurs. The entrepreneurs of the two largest companies of Shengze Township, Wujiang City, represented two opposite styles. The general manager of Yilong Company would spend a significant amount of time for



maintaining good relationships with important people, such as government officials, journalists, and business partners. On the contrary, the manager of Shengze Printing and Dying Company would rarely make effort to reach out and contact important people. People gave him a nick name: "The king of one hundred steps (Baibu Dawang)." It meant that he would never put his feet on places that were more than one hundred steps away from his company. Even when some important people visited his company, he would not spend time to accompany them. The similar phenomenon was observed in Jinjiang City as well. The general manager of Fengzhu Company was an eloquent speaker that impressed many visitors. He also actively searched for relationship with important people. Then there was another star company I visited in Yingling Township, Wanshida Company. Its general manager was very shy and talked very little. It was very difficult for him to say something to please others. In my discussion with him, I felt that he really wanted to express himself but was incapable of doing so.

This observation is contrary to my previous expectation and the popular perception. People, including myself, generally believed that social ability was important to business success because entrepreneurs had to make friends with important people. After I talked with many entrepreneurs and local officials, I realized that the relationships between entrepreneurs and other important people were primarily interest based. What really matters in those relationships was the bottom line issue of whether all parties involved could benefit for their own interests. Many good entrepreneurs maintain good relationship with important people not because of their superior social ability but their superior business performance. The fact is, success draws friends for you rather than



friends draw success for you. As my relatives in Baisu Township, Wujiang City put it: "If your business is good, everyone would listen to you. If your business is not good, no one would pay attention to you."

6. The phenomenon of "A small boat is easy to turn around."

The development of Chinese rural enterprises was characterized by several distinctive features. One of them was the phenomenon of "A small boat is easier to turn around (Chuan Xiao Hao Diaotou)." It refers that at the early stage of development, most rural enterprises were small and highly flexible in adapting to market conditions. Whenever the market shifted direction, they could adjust production quickly or even shift to completely new businesses that had little relevance to the previous ones. Many entrepreneurs I interviewed had experiences of running several different businesses before their current ones. Whenever they found that their attempts would not produce expected outcomes or there were better opportunities, they would make adjustment quickly. Consequently, Chinese rural enterprises demonstrated superior performance to grasp market opportunities. In comparison, the state enterprises were slow in responding to the changes of societal and market conditions. A popular notion attributed the weakness of state enterprises in responding to market conditions to that they were large in size. This explanation does have some factual bases. Nonetheless, as discussed in the previous chapters, many psychological, structural, and societal factors were responsible for the weaknesses of state enterprises. The great flexibility of adapting to the changing environment was an important factor for the success of Chinese rural enterprises,

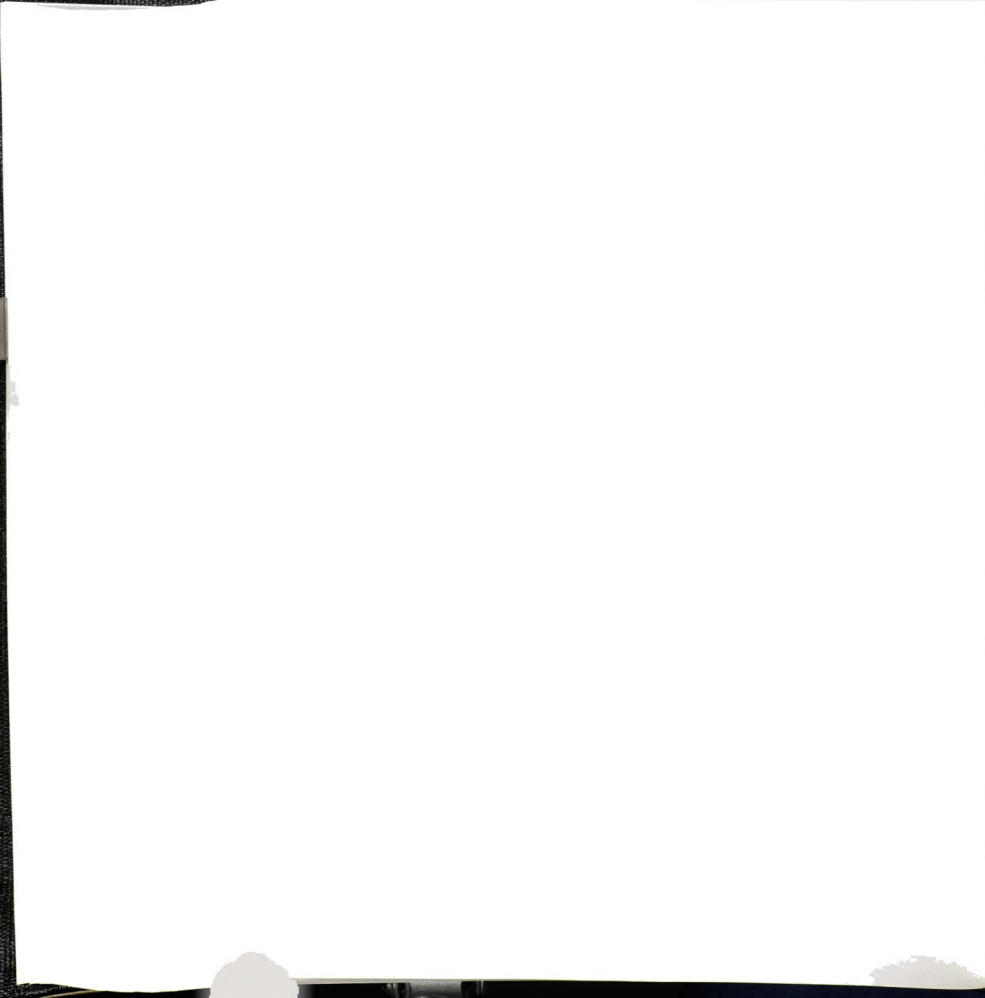
particularly at the early stage of development. The following discussion will analyze this feature in terms of the characteristics of rural enterprises, the requirements on entrepreneurial ability under the given conditions, and the collective abilities of rural entrepreneurs.

Chinese rural enterprises at its initial stage of development were characterized by very weak strength in many aspects. They could only use primitive technology due to financial and technical difficulties, were short of capital, had no established products, had no established market channels, and lacked of technical personnel. When an entrepreneur started a business, his enthusiasm was often the most valuable asset of his company. Because a new business was very weak, it was constantly in a survival crisis. The crisis was most evidently expressed that it could not afford to lose any money because there was no money to lose. The author had an interesting conversation with a government official in Yueyang City, Hunan Province. When asked to help arranging a visit to some poorly operated rural enterprises, he replied that there were no such businesses because they all disappeared. Only those that could make at least some profit existed.

For a business to survive and develop at this stage, an entrepreneur was under great pressures to make quick profits and avoid losing any money. To achieve this goal, it means that a business had to focus on short-term market opportunities rather than long-term ones. For the weak strength of a business determines that it cannot absorb the investment and cost required in waiting for the harvest of long-term opportunities. Short-term market opportunities tend to be very unstable and can change quickly. Thus, an entrepreneur has to strive for maintaining the highest possible flexibility in business

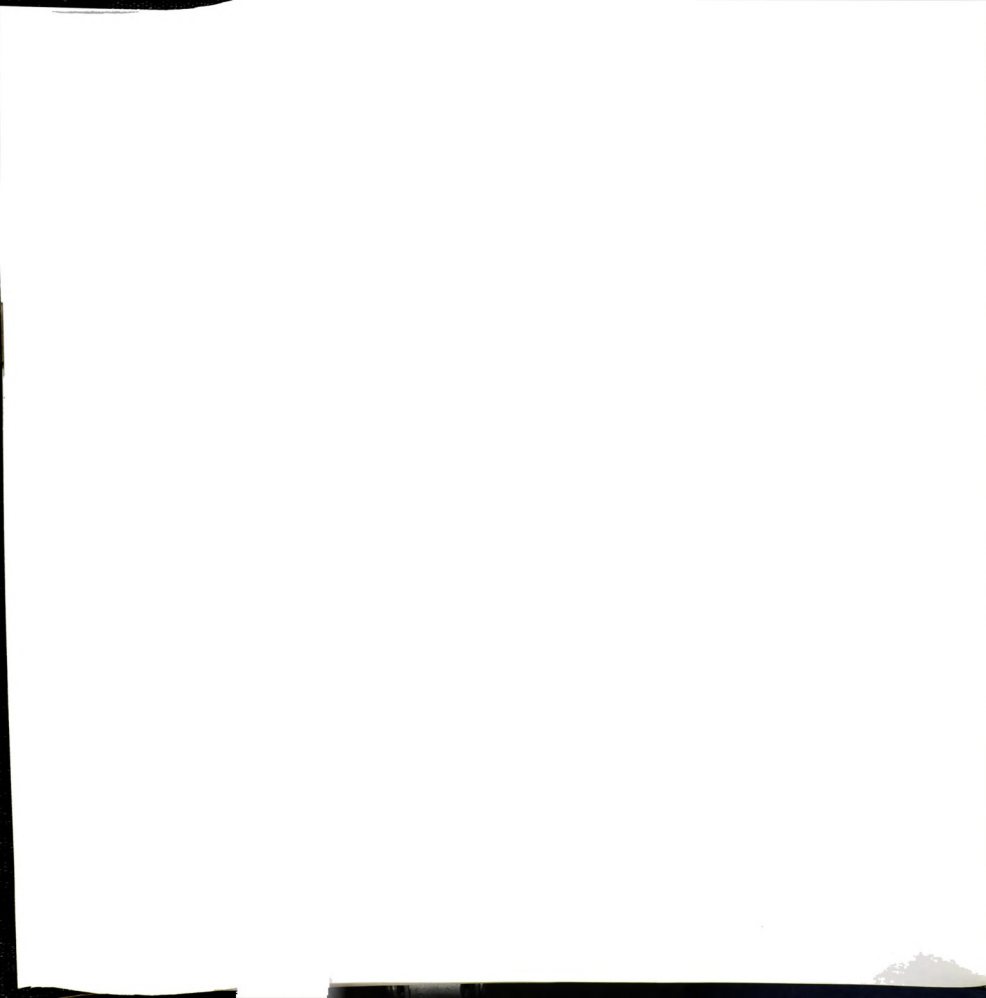
operation that enables him to catch the volatile market opportunity, make quick profits, and avoid losing money for a long period. It also means that a business could not be operated according to well-established bureaucratic regulations, well-planned goals and procedures, clear division of job responsibility among managerial members, and formal communication that could delay the reaction to market signals.

An interesting point is that the weak physical strength of a new business on one hand requires an entrepreneur to be highly flexible and act swiftly in responding to market opportunities. On the other hand, it also provides the entrepreneur with opportunities to maintain the highest flexibility in business operation. For instance, many rural enterprises started with a little capital investment. Lilang Garment Company's initial investment was four thousand yuans. If a company maintains a profitable operation, the profits could easily surpass the investment in a very short period, say, four or five months. That was what happened to Lilang Company and many other companies. Under such a circumstance, once an entrepreneur decided to give up the existing operation and shift production, he would suffer little loss from previous investment. Even one had to abandon all existing equipment, the loss could be nominal because the value was very low to begin with. By contrast, a larger company with greater investment cannot afford to do so because it needs much longer time to recover the investment. Also the loss associated with shifting production is much more substantial. Therefore, the situation is that the lesser the possession, the greater the freedom in changing business direction. For instance, no established suppliers, then one could reach out to find the best suppliers



without worrying about hurting the existing suppliers. No established products, one could search for the most promising products.

Given the demands and opportunities, a person with a higher n Ach should be attracted to take actions to produce maximum benefit. Collectively, Chinese rural people could pass the motive test, as discussed previously. Then the question would be whether rural entrepreneurs were able to respond to the requirements and benefit from the opportunities. To be a competent entrepreneur under the given circumstance, first, it calls one to act in a way that can maximally realize the potential of detected opportunities rather than following existing and commonly accepted rules or norms. The purpose of many rules and norms are for maintaining order at the expense of short-term efficiency. Therefore, they are count-productive in tasks that require high flexibility. If one could only act according to bureaucratic rules, then it would be very difficult to catch opportunities in a volatile market. Second and similarly, one should be able to take on any type of task that is important to the business rather than confine himself within a scope of clearly defined job responsibilities. At the initial stage of business, there could never be such a thing of "That is not my job." Third, one should prefer informal communication and coordination in reaching business decisions rather than a formalized structure of decision making process. In a formalized structure, a major business decision usually requires several rounds of discussion among key members at the different levels. Such a process is time consuming and incompatible with the demand of being highly responsive to market signals. Fourth and most important, an entrepreneur should be able to concentrate resources on striving for immediate benefits of business activities. Even if

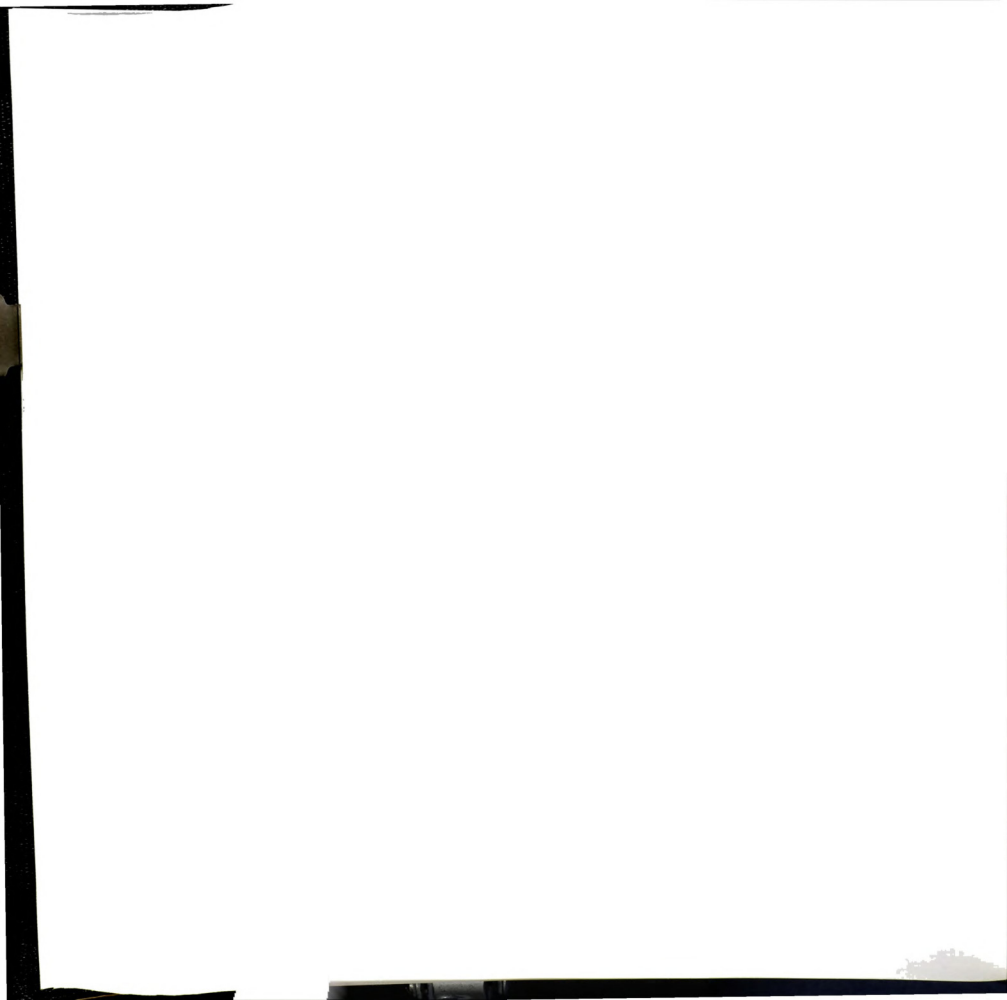


one had a long-term goal, he should be able to keep it at background and do not let it interfere with current operations. For at the initial stage, the weak strength of a business determines that an entrepreneur could not afford to divert resources to a project that has long-term benefit but weak potential for immediate return on investment. The similar observations can be found in literature as well. Greiner (1972) summarized that at the initial stage of business, the management focus was on "make and sell;" the organizational structure should be informal, and the control of operation was by "market results."

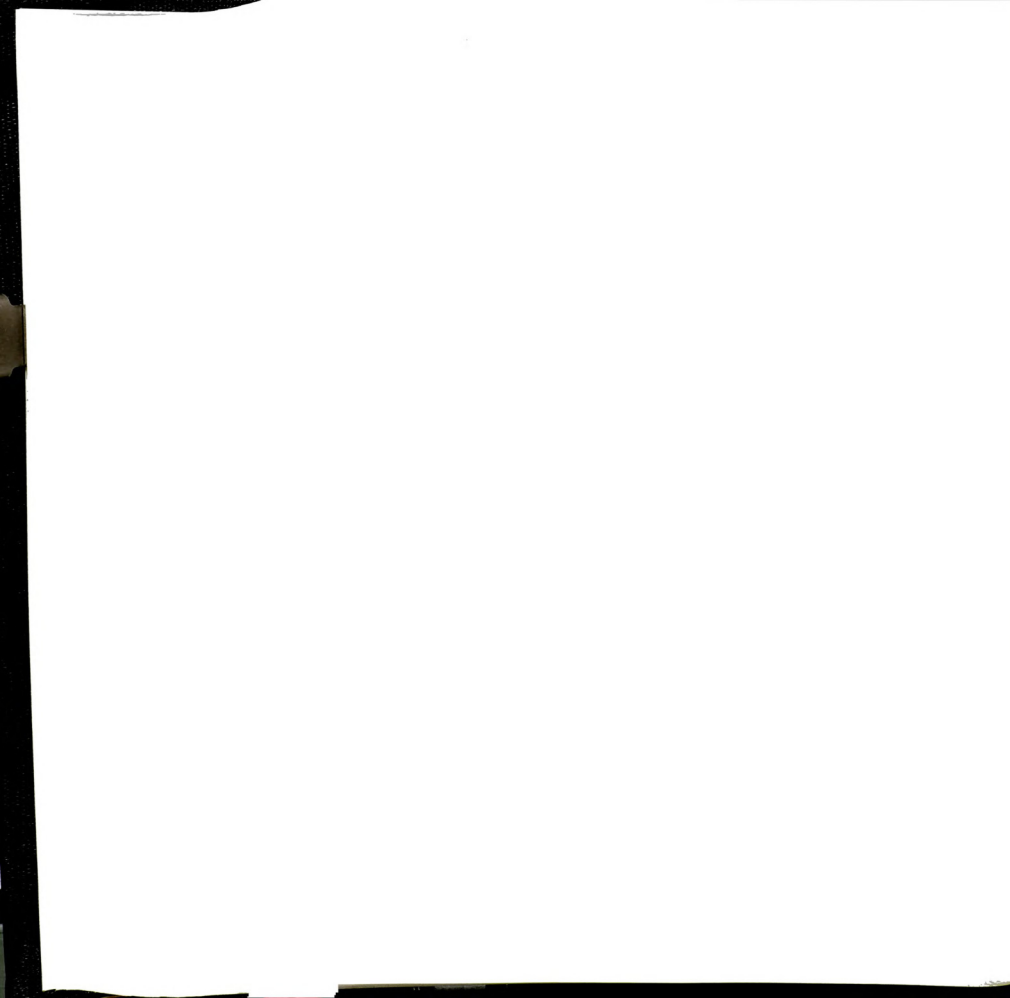
Given those requirements, it appears that the low to medium level of analytical ability is the critical at the initial stage of development because an entrepreneur's task is primarily to recognize a few simple causal relationships that certain actions can lead to quick profit and act swiftly. One does not need to engage in complex cognitive activities for thorough analysis on a wide range of issues, strategic planning for long term development, and the sophisticated coordination of major business functions. Thus, a higher level of analytical ability is not desirable at this stage. Conceptual ability is less important at this stage because the operation is primarily detail driven rather than big-picture oriented. If not manage well, higher level analytical abilities and conceptual ability could interfere with business development because one would spend too much time to think rather than act and to look at future rather than the immediate reality.

The lower threshold requirement on cognitive abilities at the early stage of business helped to open the door for the massive participation by rural people in entrepreneurial activities. As a group, Chinese peasants were known for their pragmatic

life attitudes, which were summarized by a popular saying: "Thirty mus of land, a bull, a wife, children, and a warm bed (are the only things they care about)." They would primarily decide their actions in terms of the tangible benefits in the immediate future. Idealistic and grandiose goals have weaker impacts on their actions. The less friendly description of this character would be "nearsighted in decision making" and "the idea of petty peasant economy." In reality, this characteristic is manifested that they often have to personally witness the real benefits before taking actions. Professor Zhou Hongda summarized that Chinese peasants were good followers and imitators. "They often care a great deal about some trivial issues. They also are very pragmatic and good at responding to what they can see." A story given by a school official (Yi Dengke) in Yueyang City, Hunan Province vividly demonstrated Zhou's observation. He was the member of a team sent by the local government to a backward rural area. Their mission was to help developing the economy there. One project they selected was to promote the fruit production that had better economic return than other agricultural products. At beginning, the peasants would not accept their advice to plant fruit trees. Facing the resistance, what they did was to find some village cadres to plant fruit tree and set examples. The cadres of one village volunteered. Then few years later, those cadres started to benefit from the fruit trees they planted. Having witnessed the good results personally, all peasants in the village followed the actions of those cadres. At the time of my discussion with the official, that village gained a nickname: "The flower and fruit village," because every family had planted many fruit trees. The whole village became specialized in fruit production.

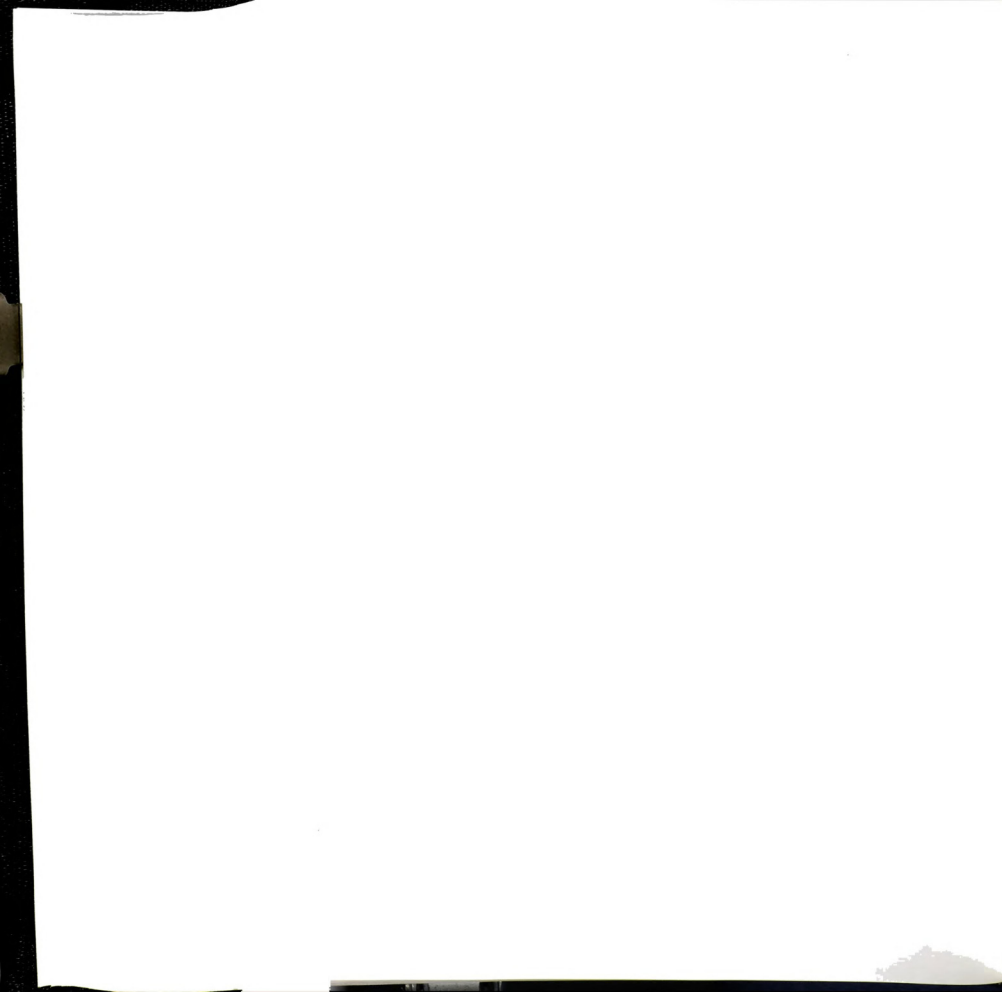


The phenomenon of imitation was common in the development of Chinese rural enterprises. In Jinjiang City, one could easily notice that in several townships, most businesses were in the same production area. For instance, ceramic business was dominant in Cizao Township, shoe business in Chendai Township, and garment industry in Yinling Township. In those places, once a few people set examples by making money from a particular product, then people around them would imitate their approaches and work on the similar products. This mentality remained among many entrepreneurs even after their businesses reached substantial size. When asked about future direction of business, an entrepreneur in Yinling Township replied: "I have no clear idea. Just see what other people would do. If they can make money, I would just follow their examples." In Wujiang City, the local officials told me that Tongluo Township was specialized in rebuilding used metal barrels. As discussed previously, the phenomenon of "Yiwofeng (a flock of bee)" was usually criticized for blindly following others' actions. Many imitating efforts failed because the market could not absorb the huge production capacity developed in a short period. Nonetheless, there is another side of this phenomenon which few paid attention. Imitation also contributed greatly to the rapid development of Chinese rural enterprises, particularly at the initial stage. For many labor intensive products, such as shoes, clothes, and processed food, the market had a huge capacity to absorb the fast growing production. Because so many rural people followed the examples set by those pioneers, it enabled the fast spread of rural enterprises. For instance, in 1979, six peasants from two families started to make plastic shoes in Xianjiang Xiang, Ruian County, Wenzhou City, Zhejiang Province. Then in 1980, there



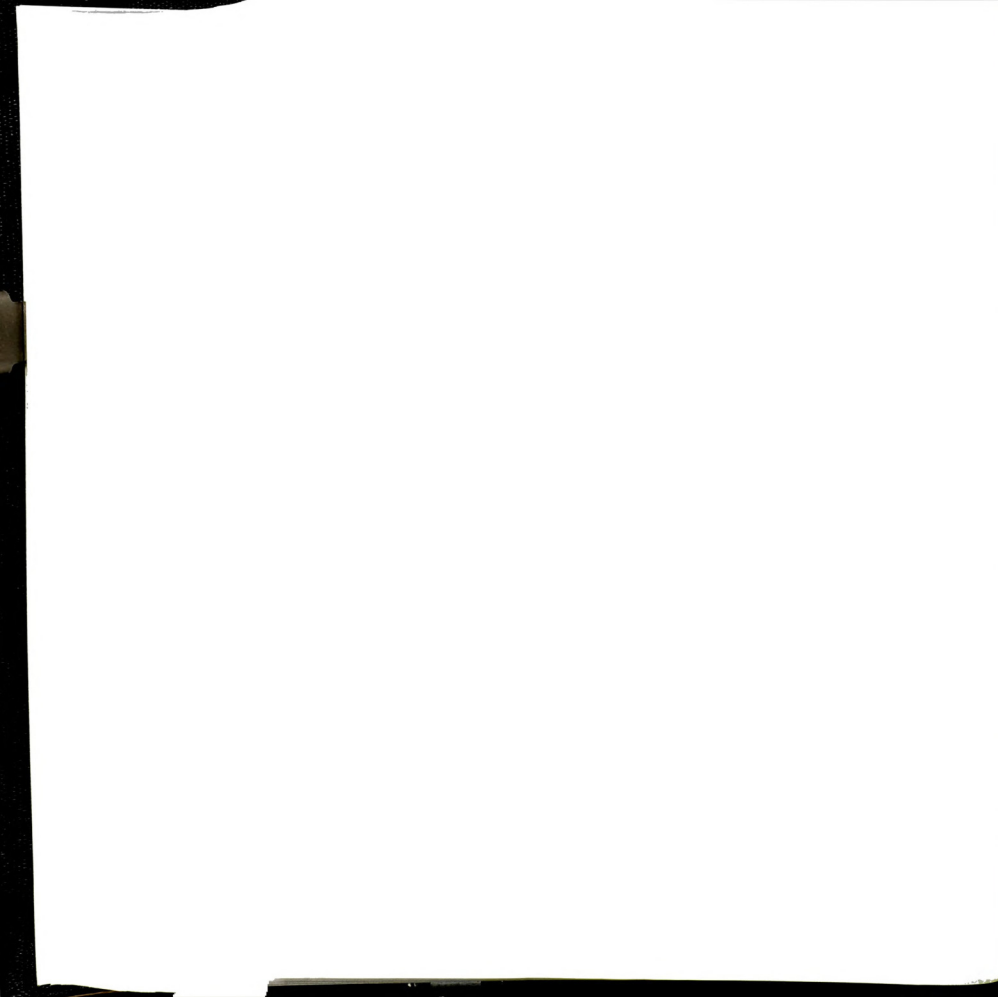
were 3030 people followed their examples (Huang & Yu, 1991:227). Thus, though Chinese peasants were often laughed at by others as nearsighted in taking actions, it turned out to be a great strength for them to participate in rural enterprises. Their abilities in responding to immediate and tangible benefits fitted perfectly with the requirement for operating businesses at the initial stage. In comparison, some people may have long-term goals in mind when they started their businesses. Their businesses could perform poorly if they only acted on their dreams but reality. I witnessed many of this type people. They would tell you many kinds of plan for a bright future and many kinds of strategy to realize their plans. When come to daily business operation, however, they just could not focus their attentions on the immediate opportunities and make enough profit to keep business going. I have never seen one of them become a successful businessman.

To act on reality rather than dream also means that one's action has to be guided by the concerns of other people rather than his own agenda. The previous discussion suggested that this requirement can be easily met by Chinese rural people for it was part of their daily lives. They acquired the ability of other focused through their own life experiences, voluntarily or involuntarily. Then this acquired behavioral pattern proved to be valuable for operating rural enterprises under the market mechanism. Because they could primarily decide their actions in terms of others' concern, the business operation was less likely interfered by one's own agenda. Thus, it could be kept highly responsive to external signals and market conditions. After one's business growing up, whether an entrepreneur could maintain his focus on others' concern became a critical factor for



further development. Nonetheless, at the initial stage, collectively, Chinese peasants possessed the ability of other focused.

Finally, the ability to operate business through the informal mechanism of communication and coordination is virtually a default for Chinese rural people because that is the way how traditional agriculture is organized. In traditional agriculture, the production follows the rule of nature rather than those designed by people. The job responsibility is less differentiated. People are directly involved in every step of production process. The planning of production is much less precise than that of modern industrial production. When rural entrepreneurs started their business, they were comfortable to follow the signals of markets rather than the regulation of organization in their actions. They would do whatever they thought was necessary rather than restricted themselves within the scope of formal job responsibilities. Rural entrepreneurs also extended the informality of business operation in their interaction with people outside their companies. The informality of business structure is further enhanced by the fact that rural enterprises were initially developed in areas close to entrepreneurs' home villages or in many cases right within the home villages. People involved not only knew each other but often were relative to each other in one way or another. The preexisted informal relationship was the solid base for the informal structure of business. As a matter of fact, the momentum of informality in business operation was so strong that it became a serious obstacle of the further development when a business grew to a significant size. For instance, the entrepreneur of Hengan Women Product Company clearly understood that rules and regulations were critical for conducting effective modern production at a large

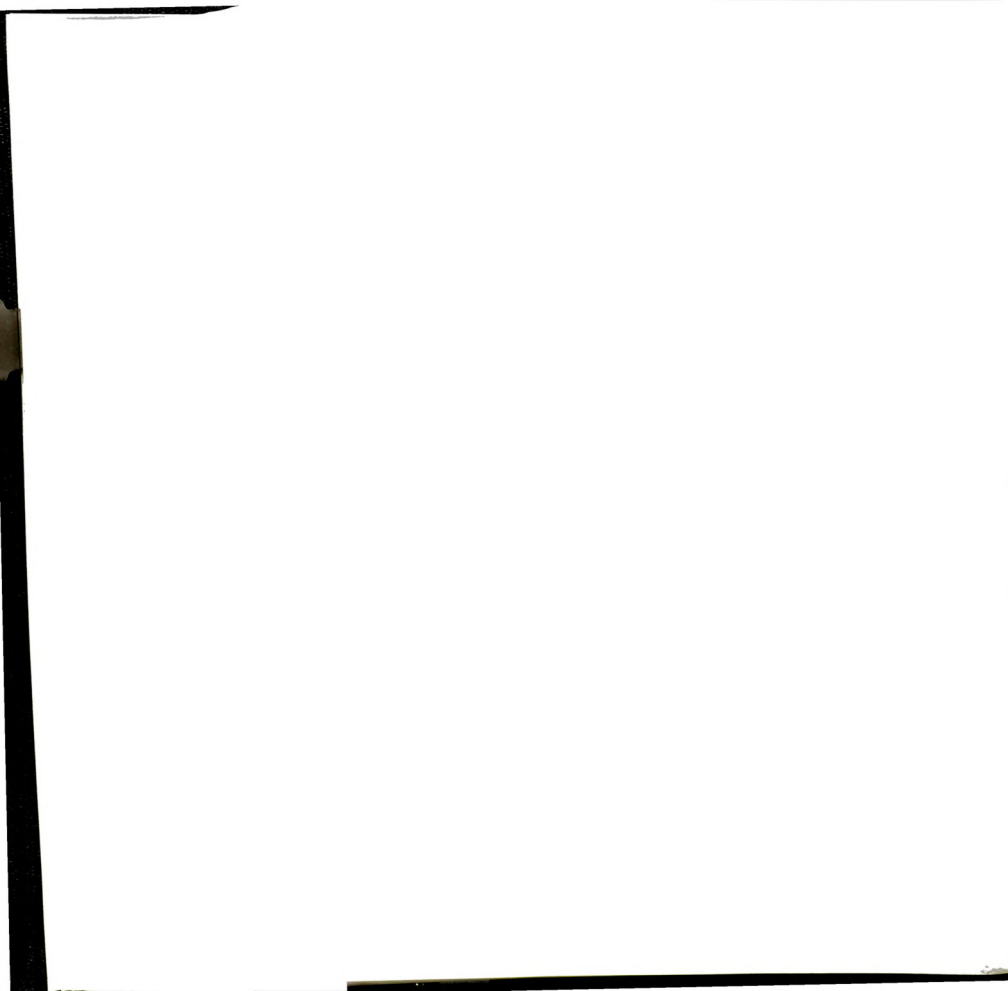


scale. Ironically, when he was asked to follow the formal procedure to reimburse his business expenses, he was so frustrated for doing that and lost his temper on accounting personnel (Fu, 1992). In Lilang Garment Company, the entrepreneur told me that they understood the importance of regulations and rules. At one moment, they asked people from a business school to design a complete set of regulations for them. At end, they were so uncomfortable to follow those rules and never bothered to enforce them.

In conclusion, the phenomenon of "A small boat is easy to turn around" is largely due to the fit between the requirement of business operation at the initial stage and the characteristics of Chinese rural people. Many commonly perceived weaknesses of Chinese rural people were actually their strengths judged by what were required to operate newly established business under given market conditions. What people would regard as important abilities to the operation of a modern enterprise was actually less useful, if no harmful, for the operation of rural enterprises at the early stage.

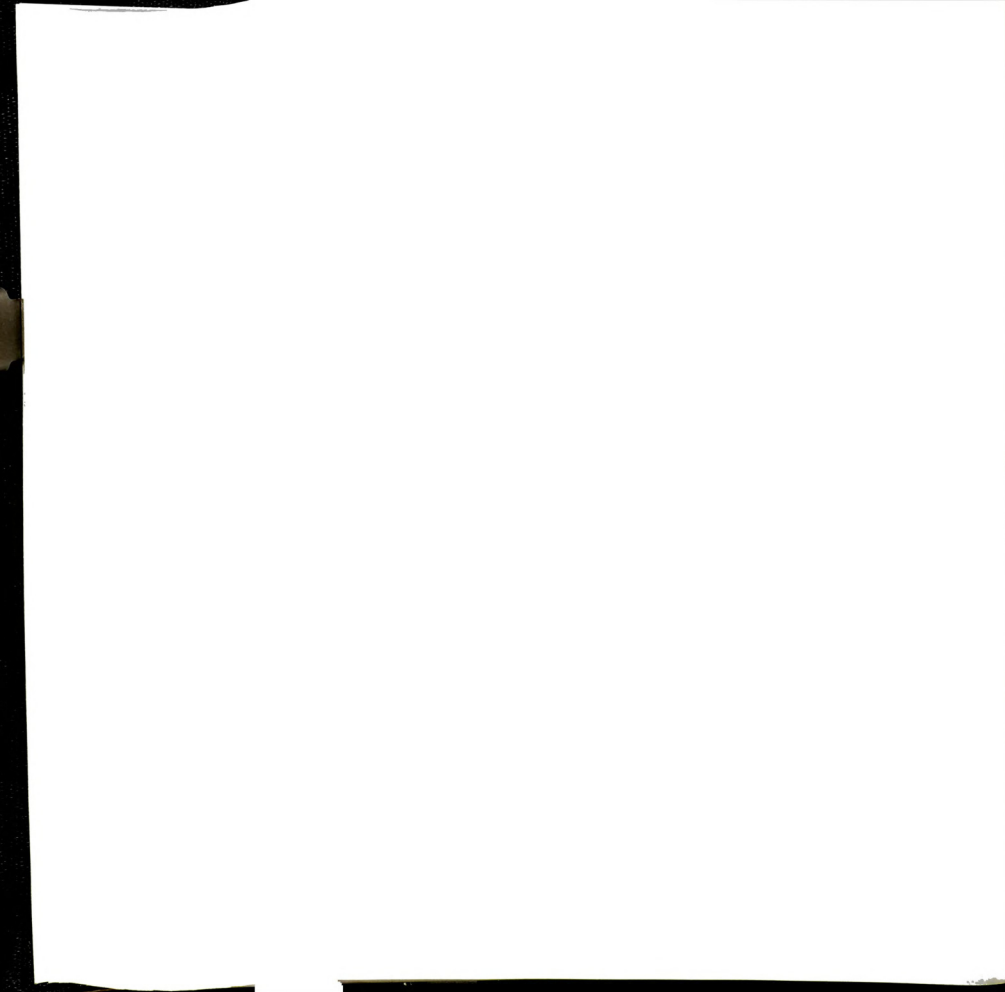
7. Summary

Individual abilities that are critical in affecting people's choice to be a rural entrepreneur or for effectively fulfilling entrepreneurial requirements are the topics of this chapter. Those are issues related to questions of "Can they do their jobs well?" Once the environment offered opportunities for practicing entrepreneurship in Chinese rural areas and many rural people were motivated to take particular actions towards entrepreneurial goals, whether they possessed necessary abilities for entrepreneurial activities is instrumental to success.



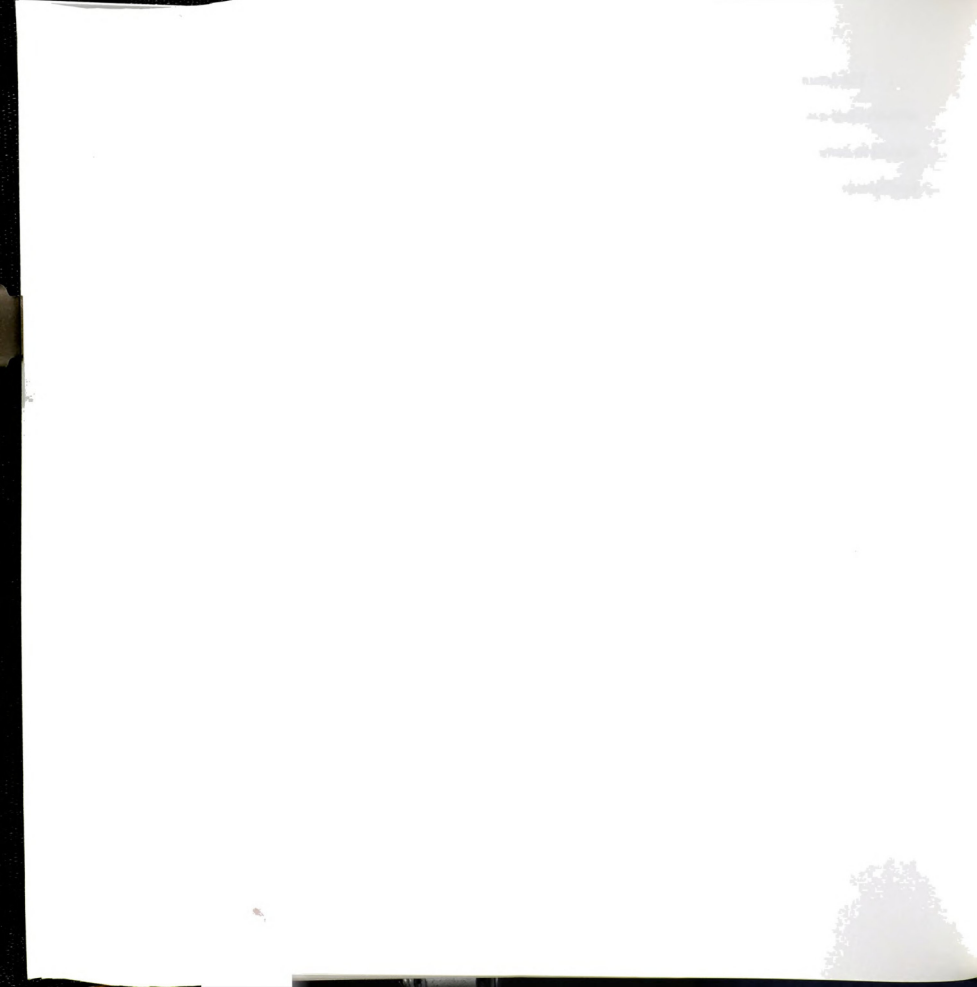
The first set of ability are two threshold requirements: optimal physical ability to withstand harsh working and living conditions and optimal mental ability to withstand the psychological pressure on rural people caused by the discriminative attitude of other social groups. These two requirements determine whether one physically and psychologically fits the duties of a rural entrepreneur in China. Their importance were determined by the external conditions under which Chinese rural enterprises developed in the early stage. Those conditions were characterized by very harsh working conditions (long work hour, poor safety protection, hazardous work environment, heavy manual labor, etc.), very poor living conditions (poor hygiene condition, poor medical service, poor transportation, primitive housing, and lack of other modern living necessities), and the widespread unfair and discriminative treatment to rural people by other social groups. If one is not both physically and psychologically tough, it would be very difficult to fulfill entrepreneurial requirements.

The analysis showed that almost all rural people in China could pass the test of physical ability as the results of long-time involvement in arduous agricultural work and primitive living conditions of rural areas. Nonetheless, this requirement did disqualified many urban people from participating in the development of rural enterprises though they might possess other required characteristics, such as an optimal level of n Ach. On the other hand, the test on mental ability differentiated some rural people from others whether they were suited in entrepreneurial positions. If one was intimidated in face of the pressure, he/she could not effectively perform entrepreneurial duties because it was impossible to avoid interaction with people of other social groups.



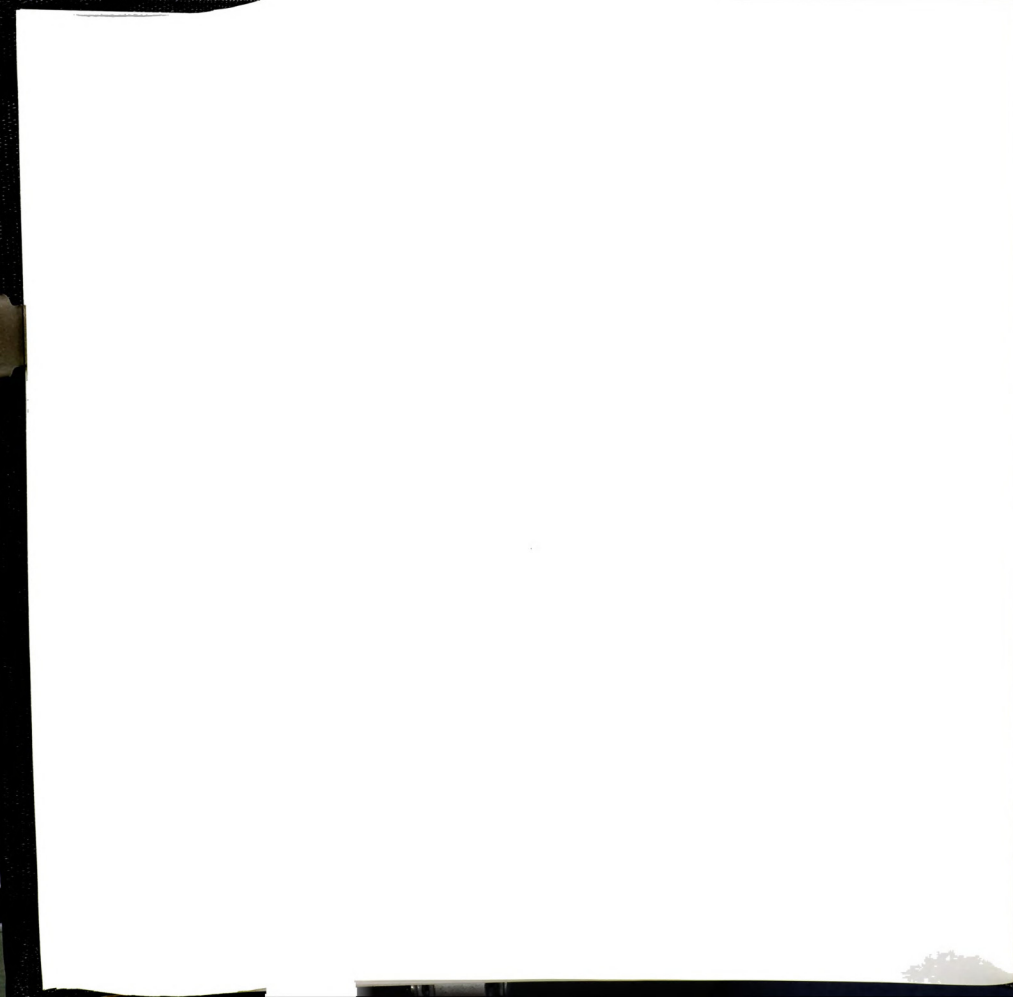
The second part of discussion was on abilities that differentiated the performance of individual entrepreneurs. According to qualitative evidence, outstanding entrepreneurs tended to demonstrate optimal level of analytic ability, conceptual ability, general intelligence, mental ability to withstand uncertainty, and the ability of other-focused in business operation. The importance of those abilities are determined by the basic tasks of entrepreneurial activities.

- Analytical ability is required because an entrepreneur needs to make causal analysis in planning business activities and determine priority among several business issues.
- Conceptual ability is important because entrepreneurs often need to look beyond phenomena at surface and deal with the causes of various business problems. This ability is also needed to operate a business from a strategic perspective.
- Entrepreneurs would often venture into unfamiliar fields in response to market signals. This was particularly true in Chinese rural enterprises. In order to quickly grasp the critical knowledge for business operation, apparently, one needs an optimal level of general intelligence.
- Uncertainty in outcome is an inseparable feature of entrepreneurial activities. The ability to keep calm is critical for an entrepreneur to act effectively under the uncertainty and avoid possible damages to business due to panic and confusion.
- To operate a business under market mechanism, an entrepreneur needs to be highly responsive to the interests of the others, particularly those of customers and important business partners. To maintain a high level sensitivity requires an optimal level of other-focused ability.



In discussing the impacts of individual ability on entrepreneurial activities, special attention was on the growth potential of a business. When a company is small, the operation is basically “one man’s show” by individual entrepreneur. As a business growing, the number and complexity of business issue increase as well. When the situation reaches to a point that it is beyond the capacity of individual entrepreneur to cover every business issue, the coordination and cooperation between different functions within the company become critical for further development. To maintain the growth momentum, an entrepreneur should be able to simplify the increasingly complicated situation by categorizing business issues, delegate less critical management responsibility to the others, focus on the issues of the highest priority. In so doing, the relative importance of analytical ability decrease and conceptual ability increase. Furthermore, when a business becomes big, the ability to see “a big picture” is critical for the continuous growth. This is another reason that conceptual ability is more important in managing a larger size business.

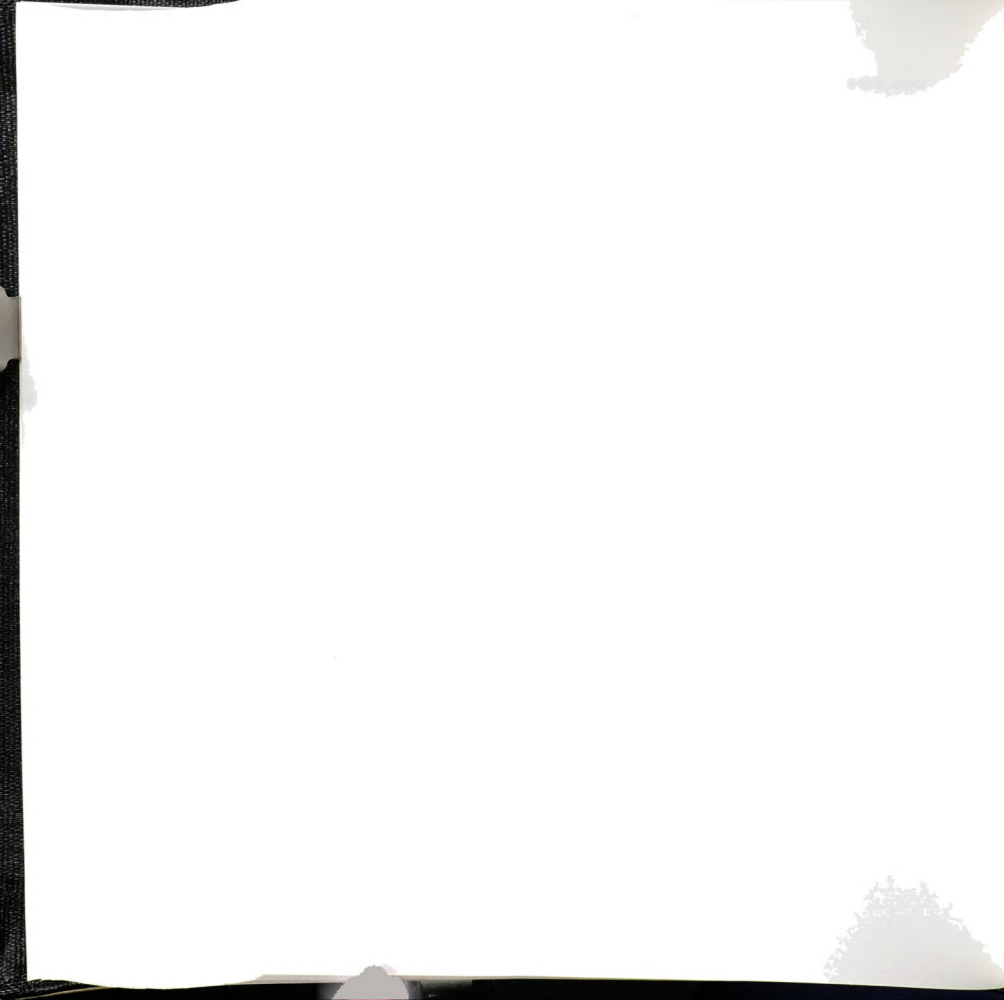
The ability of other-focused affect the growth potential of a business as well. When a business is small and under constant pressure from survive, it is not difficult for an entrepreneur to be highly sensitive to the interest of the others. Nonetheless, once a business achieves substantial growth and becomes fairly successful, the external pressure of maintain a high sensitivity to the others’ interest become less severe. Also success often bolsters one’s confidence in his/her own judgment. Once external pressure reduces and self-confidence increases, whether one can still consciously focus on the others’ interests in operating a business often tells outstanding entrepreneurs from the average



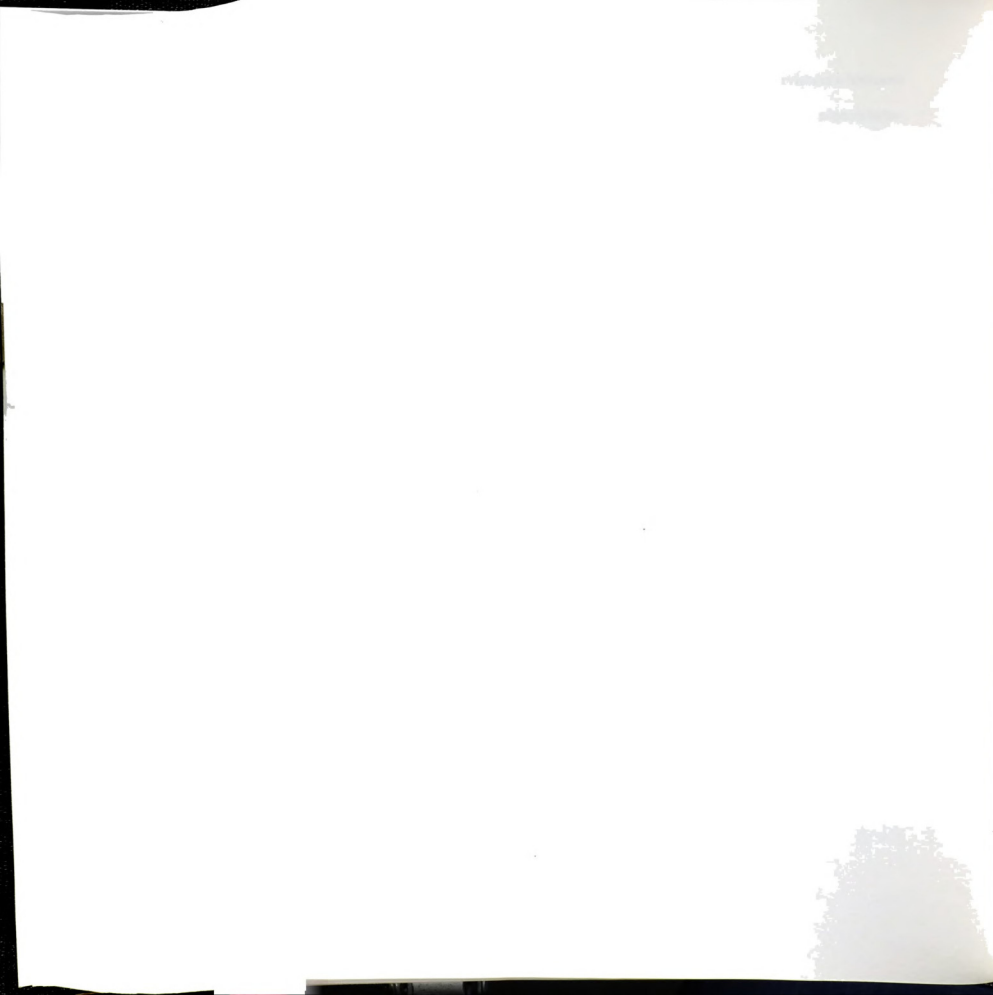
ones. For a business operated under market mechanism, being highly responsive to the interest of customers is a key for success.

An important feature that characterized the development of Chinese rural enterprises, "A small boat is easier to turn around," was analyzed in terms of the collective ability of Chinese rural people. At the early stage of development, rural enterprises were all very weak in material strengths. To survive and grow, rural entrepreneurs had to be highly responsive to immediate market signal and other environmental changes. Also an entrepreneur had to focus on the current situation rather than to follow long-term plan in business operation. Those conditions determined that an entrepreneur should have low to medium level of analytical ability, be comfortable using informal mechanism, and be highly sensitive to the others' interests. Conceptual ability was less important at this stage because business operation was more detailed focused rather than guided by strategic plan. On the other hand, the analyses showed that the life experience of rural people rendered them collectively with the optimal level of those required ability. Therefore, the match between the collective ability of Chinese rural people and the requirements of operating rural enterprises at the early stage is a direct cause of this feature.

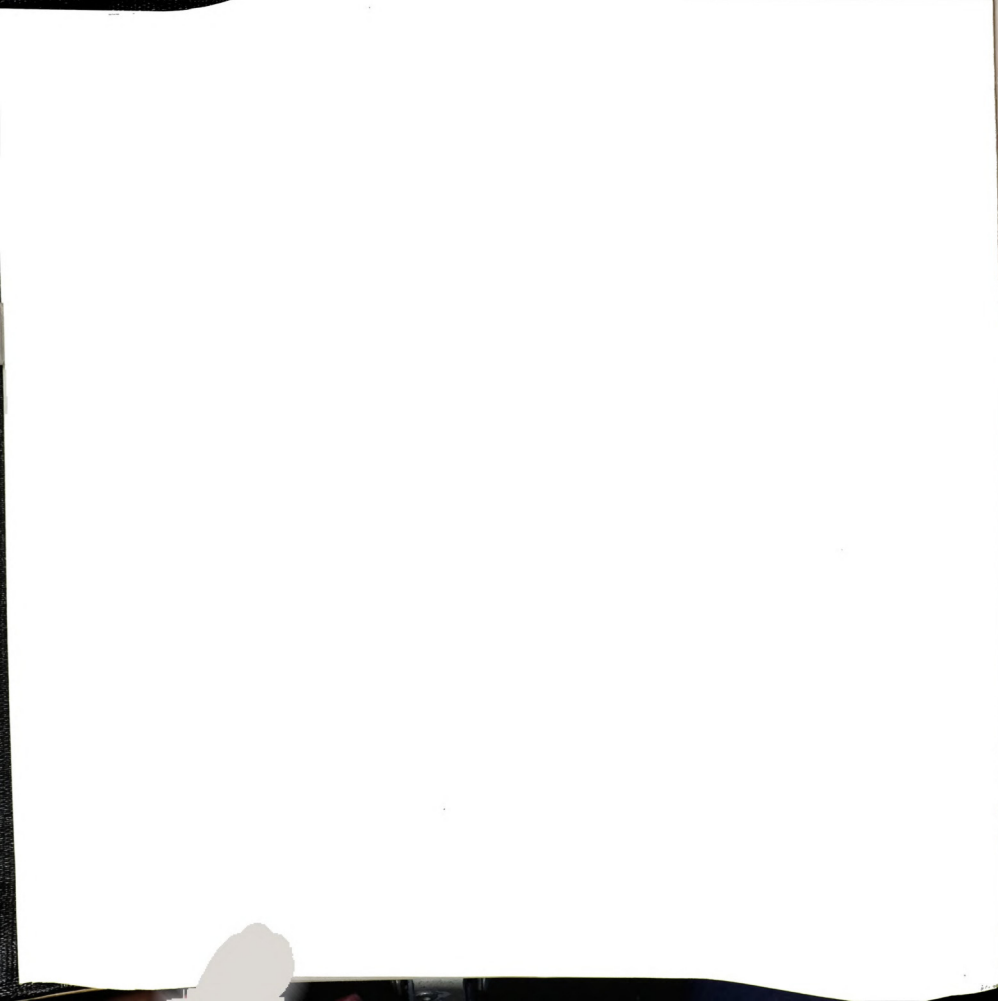
The analyses in this chapter showed that, at the initial stage, the majority of Chinese rural people possessed the abilities required to operate newly started business. Then as businesses growing, the difference in abilities, particularly conceptual ability and the ability of other- focused, became critical factors to maintain development momentum. It is fair to say that an important reason that the development of Chinese rural enterprises



reached a massive scale in a very short time period can be ascribed to a sufficient pool of rural people who possessed optimal level of critical abilities, in addition to an optimal level of achievement motive and the opportunities created by permissive societal conditions.







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SOCIETY, INDIVIDUAL ABILITY, AND MOTIVE

A Socio-Psychological Study
on Entrepreneurial Activities in Chinese Rural Enterprises

Volume III

By

Wei Chen

A DISSERTATION

Submitted to
Michigan State University
In partial fulfillment of the requirements for the degree of

DOCTOR OF PHILOSOPHY

Department of Sociology and Urban Studies Programs

1999

Chapter Eight

Data speak: Findings of the survey study

This study tests the same theoretic propositions both qualitatively and quantitatively. In addition to the person-to-person interviews, a survey was administered to rural entrepreneurs to collect quantitative data regarding the impact of environment, ability, and motive on entrepreneurial activities. It was conducted in three main sites of field study: Jinjiang City in Fujian Province, Wujiang City in Jiangsu Province, and Tongliang and Dazu Counties in Sichuan Province (combined as one site).

In the previous chapters, the discussion was primarily based on qualitative data. It showed that the performance of Chinese rural entrepreneurs was jointly affected by the environmental factors and their personal characteristics. The qualitative findings were consistent with the major theoretical propositions discussed in Chapter Three. Moreover, the author formed some impressions about rural enterprises through personal observation and information from other sources, such as popular perceptions, research findings of other scholars, and discussions with local people.

This chapter uses the quantitative data collected through the survey to test some theoretic propositions and qualitative findings. The analyses of the survey data will be divided into three parts. First, descriptive information about the rural enterprises surveyed will be presented. It can also help to test various impressions about rural enterprises formed through either popular perceptions, others' research, or my observation. Second, the conceptual framework that guided this study and the derived hypotheses regarding the

impact of personal and environmental factors on entrepreneurial activities will be tested quantitatively. Third, additional analyses were also performed to explore the relationships among the major personal and environmental factors and other demographic variables, such as an entrepreneur's age, level of formal education, CCP membership, average time needed to receive the payments for sales of products, and number of close business partners.

Survey design

Procedure

The survey was designed as an integrated part of a two-day seminar on management science. The local governments at each research site provided administrative support and facilities. They also helped to recruit rural entrepreneurs to attend the seminar.

Before the instruction part of the seminar started, all participants were required to fill out "Director and Manager Behavior Questionnaire" (See Appendix B). They were instructed that the questionnaire was an assignment of the seminar designed to collect information for feedback later. After they all turned in the questionnaire, the seminar started. During the last session of the seminar, a briefing of the survey results was given to the participants. The survey was administered at the beginning of the seminar to avoid the results being contaminated by the knowledge learned and assure the data quality. Moreover, this technique significantly increased the response rate since some people might drop out of the seminar.

Using the seminar as the mean of reaching a target population and of collecting data had several advantages over other methods, such as a mailed survey. First, the investigator had direct interaction with respondents to clarify concepts and the meanings of questions. The respondents also provided rich information in terms of the practical implications of their answers. This type of information is valuable to link the empirical findings with reality. Second, this approach helped achieve a high response rate and good data quality. Entrepreneurs are very busy and practical people. It is understandable that they would not spend much time to fill out a lengthy questionnaire without anything in return. By attending the seminar, however, they learned useful knowledge. The survey also served dual purposes. It was both a mean of data collection and a tool of self-diagnosis. The data collected helped them to analyze their performance, to find problems, and to make improvement. Thus, their willingness to answer the questions was enhanced significantly.

The use of a seminar to collect data means that purposive sampling was used in this study. Purposive sampling may have problems of sample representativeness. Therefore, several measures were taken to reduce potential errors in data collection. First, with the cooperation of local governments, the seminar participants were recruited from average and outstanding enterprises judged by their business performance. Local officials also tried their best to balance the size, industrial type, and the location of businesses within a local community to cover a wide range of enterprises. Second, several seminars were held in different townships of each research site. Conducting seminars at several townships helped to draw participants from a broader geographic area. The entrepreneurs

in the final sample were spread over several townships in each locality and represent companies that differed in business performance and other major indicators.

Participants

Chinese rural enterprises are known for their diversity in many respects, such as in ownership, production, location, size, and technological sophistication. To simplify the analysis and to achieve representative findings, the selected enterprises should share similar managerial activities and form the majority of rural enterprises. The ideal targets are industrial enterprises which form the majority of rural enterprises. Also industrial production shares many similarities in managerial activities. Enterprises in service, transportation, construction, and other areas were excluded. Only top managers were investigated in this study.

Three independent samples were surveyed from the three research site respectively. Among those who attended the seminar, most were the number one people of their companies (N=146). Also a few companies sent their number two people (N=30). Those 176 participants were qualified as rural entrepreneurs because they bore major responsibility for the operation of their businesses. The descriptive information about those entrepreneurs showed that most were between 36 and 45 years old (49.4%; N=87) with 27.8% (N=49) being 35 years old or younger and 22.7 (N=40) over 46 years old. The majority of the entrepreneurs were male(92.6%; N=163) and almost all of them were married (92.6%; N=163). The education level of most entrepreneurs was pre high school (76.1%; N=134). The majority held Communist Party membership (56.8%; N=100). They

all operated industrial enterprises. 74 respondents were from Wujiang City, 60 from Jinjiang City, and 42 from Tongliang and Dazu Counties.

Research sites

Two criteria were used in selecting the research sites. First, they should reflect regional difference in terms of the level of economic development. Second, the research sites should represent different levels of local government involvement in business operation. The process of selecting research sites actually provided the measures of two macro environmental factors. To reflect the development gap, some sites had to be selected from the inland areas and other from coastal areas. The sites from the inland areas represented a lower level of development whereas those counties from coastal areas had higher levels.

The development of rural enterprises showed several patterns and the level of local government involvement was a key in forming these patterns. For instance, in the suburb of Shanghai, rural enterprises are more integrated into the planned economy. Unlike other areas, their production and distribution processes are more integrated with state-owned enterprises. In the Sunan model, local governments promote collective enterprises and hold a great deal of control over production, selection of managerial personnel, financial priority, and so forth. In the Wenzhou model, local governments are very laissez-faire, giving almost all control to entrepreneurs themselves. Family and privately-owned businesses are the majority in this area. The Jinjiang model represents a similar situation

(Chen & Xai, 1988). To reflect the difference in levels of government involvement, the research site were selected from areas representing different models of development.

The three sites in this study met the two criteria nicely. Tongliang and Dazu counties are located in Sichuan Province, which is classified as the Western economic region. Even within this province, these two counties were average judged by the major index of rural enterprise development, such as annual production output, tax, and profit. Compared with Jinjiang and Wujiang cities, they represented a lower level of regional economic development. Jinjiang City of Fujian Province and Wujiang City of Jiangsu Province belong to the coastal region. They were also the stars in their own provinces in terms the development of rural enterprises. Jinjiang City was known nationwide because it represented the Jinjiang Model. The differences among those research sites are evident. For instance, when the local governments of Tongliang and Dazu counties organized the seminar, they decided to recruit all entrepreneurs from companies with annual outputs over a half million yuans Such companies were the major businesses in local communities. In Jinjiang and Wujiang cities, enterprises with an annual production output of over several million yuans were very common. Even though the standard for being a major business was set very low, Tongliang and Dazu governments still could not get enough managers to attend the seminars. They had to recruit the entrepreneurs from the companies with annual production output less than half million yuans.

In terms of the level of local government involvement, Jinjiang City was the most liberal among the three sites. Rural entrepreneurs were virtually one hundred percent on their own in operating their businesses. Wujiang City, as part of the Sunan model, was

second in this regard. Local governments there had substantial control over local businesses, particularly on personnel and financial issues. For instance, the Baisu Township government regularly checked the bookkeeping records of all township enterprises. In theory, the top managers of enterprises had to be assigned by the local governments. Tongliang and Dazu counties represented the highest level of government involvement. The local governments involved not only in personnel and financial issues, but also in detailed business decisions. For instance, a township government could have a final say on whether a manager should make a business trip. Appendix A gives detailed description of these three sites.

Part One: Descriptive results

The qualitative data and popular perception suggest several distinctive features about the development of Chinese rural enterprises. For instance, compared with state enterprises, a market orientation is a distinctive feature of rural enterprises. Jinjiang City was known for its overseas connections and predominantly private businesses. Tongliang and Dazu counties were located in relatively backward areas and had difficulty in access to important resources. I also noticed that technical personnel from other areas had a more substantial presence in the Jinjiang companies than in the companies of the other two research sites. Did the survey sample support these observations well? To answer this question and to provide an overall picture of the companies investigated, the respondents were asked to describe their companies on several indicators such as ownership, method

of sale, the source of capital, and location of major customers. Their responses are summarized and the implications of descriptive evidence are discussed in this part.

Ownership

Table 8.1 Ownership distribution by site and overall situation.

	Collective-township	Collective-village	Private	Joint-venture	Other
Overall	51.1% (90)	10.2% (18)	22.7% (40)	11.9% (21)	2.3% (4)
Wujiang	73.0% (54)	14.9% (11)	0%	6.8% (5)	1.4% (1)
Tongliang-Dazu	81.0% (34)	11.9% (5)	4.8% (2)	0%	2.4% (1)
Jinjiang	3.3% (2)	3.3% (2)	63.3% (38)	26.7% (16)	3.3% (2)

Note: Number in parentheses are the number of enterprises.

Among the 176 rural entrepreneurs surveyed, 61.3% (N=108) identified their companies as collective ownership (township and village enterprise), 34.6% (N=61) as private ownership (Joint-venture businesses can be considered as private ownership, particularly in Jinjiang City), and 2.3% (N=4) as others. Three cases were missing from Wujiang sample. For each research site, 87.8% (N=65) in Wujiang City were collective ownership, 92.9% (N=39) in Tongliang and Dazu Counties were collective ownership, and 86.7% (N=54) in Jinjiang City were private ownership. These results match the actual situation of each site. The Sunan Model, of which Wujiang City is a part, was known for the success of its collective rural enterprises whereas the Jinjiang Model was known for private ownership. In Tongliang and Dazu Counties, the local environments were not

supportive of private businesses. For instance, a seminar participant in Dazu County told me that she owned her company. Nonetheless, the local government demanded that she register it as a collective enterprise and she could not refuse. In Tongliang County, the local government started to adopt a more supportive attitude toward private enterprises after a major policy meeting which was held in the summer of 1994, only a half year before my field trip.

It was a profound phenomenon that close to 90% of Jinjiang entrepreneurs surveyed admitted the private ownership of their businesses (In terms of personal observation, I believe that the actual figure should be 100%). Private enterprise used to be politically incorrect in a socialist economy. At the early stage of development, the hostility toward private businesses was very strong. Private entrepreneurs usually had to disguise their businesses as collective ownership to avoid potential political danger. In several crackdowns on private enterprises, Jinjiang City was hit particularly hard. For instance, during 1976 and 1977, the movement of "Striking the New Bourgeois" resulted in sending hundreds of Jinjiang entrepreneurs to jail. In 1985, Jinjiang rural enterprises were hit very hard by the highly publicized "Fake Medicine Case." (Wei, 1994). The local officials of Jinjiang City thought that the real target of "Fake Medicine Case" was the rapid development of private enterprises. I discussed this argument with the scholars and officials who were attending a conference on rural development, held in Jinjiang City in 1994. They generally agreed that the political agenda was an important cause of the great publicity of that case. In 1994 when I did field work in Jinjiang City, China's political climate had become fairly liberal. Private enterprises had been accepted as an important

component of the economy. That Jinjiang entrepreneurs no longer disguised the private ownership of their businesses was good evidence of the changed political climate.

Year of establishment

The companies surveyed were established between 1954 and 1994, with the majority (67.4%) being set up after 1983, when the development of rural enterprises started to show an astonishing growth rate. A few businesses were pre-1970 (4.1%, N=7). As for each site, the number of companies established before and after 1983 was almost evenly split (46.6% vs. 53.4%) in Wujiang City. This is consistent with the longer history of the development of rural enterprises in the Sunan area. Many businesses established during the Great Leap Forward in this area managed to survive several setbacks in rural non-agricultural development. Furthermore, because the government was fairly permissive toward collective rural enterprises, businesses were also established during the late period of the cultural revolution and the early period of economic reform. Many of them continued operation into the 1990s. By contrast, there were no pre-1980 companies from Jinjinag City and a overwhelming majority (93.2%) were post-1983. This reflects that since 1983, the political climate gradually became permissive to private enterprises. The distribution of Tongliang and Dazu counties is similar to that of Wujiang City, 46.6% pre-1984 and 53.4% post-1983.

Marketing approaches

Table 8.2 Distribution of marketing approaches in individual and combined samples

	Long-term supplier to other companies	Purchase by state planning	Sales to direct users	Sales to wholesales
Overall	29.5% (52)	5.7% (10)	76.1% (134)	11.9% (21)
Wujiang	39.2% (29)	4.1% (3)	79.7% (59)	9.5% (7)
Tongliang- Dazu	14.3% (6)	4.8% (2)	73.8% (31)	9.5% (4)
Jinjiang	28.3% (17)	8.3% (5)	73.3% (44)	16.7% (10)

Note: Number in parentheses are the number of enterprises.

The sum of a row is greater than 100% because respondents chose multiple answers.

The most popular approach was to sell products to direct customers (76.1%). It means that entrepreneurs had to take the initiative to search for customers and to sell their products. This is typical for a market-oriented business. The second popular approach was to become a long-term supplier for other companies (29.5%, N=52). This approach is the result of several unique strategies in the development of rural enterprises. For instance, horizontal cooperation with a state enterprise often means that a rural enterprise becomes a stable supplier of the former for parts and semi-processed materials. This strategy was particularly evident in Wujiang City since it was close to the largest manufacturing center of China, Shanghai City. For Jinjiang City, the story is different. A stable supplier status is usually associated with overseas Chinese investors who take care of marketing responsibility. The least common approach is purchase order from government distribution agencies (5.7%, N=10), which is part of the state planning. For all three sites, the situations were similar in terms of the method of sale. These numbers

depict the strong market orientation of the surveyed enterprises, and is a finding consistent with the popular perception that Chinese rural enterprises are primarily market-driven.

Sources of capital

Table 8.3 Major sources of capital by each site and the overall situation.

	Bank Loan	Collective organization	Private investment	Net profit	Join-with-capital
Overall	61.9% (109)	18.2% (32)	30.1% (53)	42.6% (75)	7.4% (13)
Wujiang	71.6% (53)	21.6% (16)	8.1% (6)	56.8% (42)	4.1% (3)
Tongliang-Dazu	83.3% (35)	14.3% (6)	31.0% (13)	28.6% (12)	21.4% (9)
Jinjiang	35.0% (21)	16.7% (10)	56.7% (34)	35.0% (21)	1.7% (1)

Note: Number in parentheses are the number of enterprises.

The sum of a row is greater than 100% because respondents chose multiple answers.

Before discussing the findings in Table 8.3, it might be helpful to briefly explain the meaning of Join-with-capital for readers may not be familiar with this concept. It represents a frequently used approach in some areas for gathering capital, By this approach, everyone who wanted to join a company, had to invest a certain amount of capital. Generally, the higher one's position in a company, the more money he/she should invest.

Table 8.3 shows that among the companies surveyed, bank loans were the most important source of capital (61.9%), followed by accumulation through profit (42.6%), private investment (30.1%), investment from collective economic organizations (villages

and township) (18.2%), and join-with-capital (7.4%). Among the three research sites, Wujiang City and Tongliang-Dazu had the greatest dependence on bank loans as a source of capital, 71.6% and 83.3% respectively. This was typical in areas where collective enterprises were dominant because to a significant degree, local governments were responsible for providing capital and it was easier for them to get a loan from a bank. In contrast, individual investment was the most important source of capital in Jinjiang City (56.7%) where private enterprises were dominant. The proportion of enterprises financed by individuals was almost negligible in the Wujiang sample (8.1%, N=6) where most companies surveyed were collective ownership.

An interesting phenomenon was that 9 out of 13 join-with-capital cases were from Tongliang and Dazu Counties even though this area contributed the fewest cases to this study (42 out of 176). This phenomenon can be explained by the fact that Tongliang and Dazu were economically backward compared with Wujiang and Jinjiang. One consequence of being in an economically backward area for business development is a shortage of capital. Thus, people had to try any means to gather capital. It explains why join-with-capital could be a popular practice in Tongliang and Dazu. This approach extracted capital directly from individuals. If there were other ways to obtain capital, people usually did not use this approach because it defused power in decision making and made it difficult for an entrepreneur to manage his company. This practice was negligible in the Wujiang (3 out of 74) and Jinjiang samples (1 out of 60).

Location of major domestic customers

The respondents were asked to indicate the distribution of their major domestic customers among four regions: local area (own county or city), the province in which they were located, adjacent provinces, and the rest of China.

Table 8.4 Distribution of major domestic customers by site and overall situation

	Local area	Own province	Adjacent prov.	Rest of China
Overall	30.1% (53)	38.1% (67)	31.3% (55)	36.9% (65)
Wujiang	20.3% (15)	43.2% (32)	47.3% (35)	37.8% (28)
Tongliang- Dazu	40.5% (17)	38.1% (16)	19.0% (8)	19.0% (8)
Jinjiang	35.0% (21)	31.7% (19)	20.0% (12)	48.3 (29)

Note: Number in parentheses are the number of enterprises.

The sum of a row is greater than 100% because respondents chose multiple answers.

Table 8.4 shows a pattern reflecting the different local conditions of the three sites. The rural enterprises in the Sunan Model broke the "Three Locals" restrictions on the development of rural non-agricultural production in the 1970s. These restrictions were "Producing locally, obtaining resources locally, and marketing locally." As result, their productions targeted the nationwide market. Rural enterprises in this area were also technologically more sophisticated than those in other areas that enhanced their competitive advantage in the nationwide market. As a part of the Sunan Model, it is not surprising to see that the local market is relatively less important for Wujiang companies. Companies in Tongliang and Dazu counties were technologically less sophisticated, compared with those of Wujiang City. Therefore their products were less competitive in a broad market. Transportation was also a big problem in this area. Therefore,

entrepreneurs had to rely more on the nearby market where they enjoyed the advantages of geographic closeness and community support. For Jinjiang City, the local market is important because there are several wholesale markets located within the city boundary, for instance, markets for clothes and shoes. Many companies sold their products through these markets. The development of rural enterprises in this region was also targeted at the nationwide market. The highest percentage of companies there selected the category of "Rest of China." The adjacent province market is less important than in the Wujiang sample because those provinces (e.g., Guangdong Province and Zhejiang Province) were competitors in the major products of Jinjiang City, such as shoes, clothes, and toys.

Source region of raw material

Table 8.5 Distribution of source regions for raw materials

	Local area	Own prov.	Adj. prov.	Rest of China	Imported
Overall	40.3% (71)	35.8% (63)	26.1% (46)	23.9% (42)	15.9% (28)
Wujiang	31.1% (23)	37.8% (28)	41.9% (31)	32.4% (24)	12.2% (9)
Tongliang - Dazu	64.3% (27)	33.3% (14)	11.9% (5)	4.8% (2)	0%
Jinjiang	35.0% (21)	35.0% (21)	16.7% (10)	26.7% (16)	31.7% (19)

Note: Number in parentheses are the number of enterprises.

The sum of a row is greater than 100% because respondents chose multiple answers.

Table 8.5 shows that rural enterprises in Wujiang and Jinjiang obtained raw materials nationwide and even globally. One of the most important "Three Locals" restrictions for rural enterprises was to obtain raw materials locally. Obviously, it had no

impact on those companies when the survey was conducted. Imported material was an important source for Jinjiang companies reflecting the impact of overseas Chinese on the development of rural enterprises in that area. They supplied many companies with imported materials to produce goods for overseas markets. By contrast, companies in Tongliang and Dazu heavily relied on the local area and Sichuan Province in which these two counties are located for the supply of raw materials.

Source regions of key technical personnel

The same categories of region for raw material supply were used to ask respondents to indicate the source regions of their key technical personnel. Respondents were asked to report the situations at the time of survey and when their companies were initially established.

Overall, local talent was the major sources of key technical personnel at both the present and initial stages (64.2% and 64.8%). The situation varied from site to site, however. Tongliang and Dazu companies were almost exclusively relied on local talent at both stages (83.3%). This was because businesses in economically backward areas had difficulties in attracting skillful and knowledgeable people from other areas, particularly from urban areas. Jinjiang City used to be a backward area in terms of economic development. Reflecting that reality, at the initial stage, it had to primarily rely on local talent for development. As an economically backward area for a long period, however, the supply of quality local talent was limited. The extraordinary growth in this area created a huge demand for technical personnel from non-local sources. Also because

working and living conditions improved substantially, the opportunities in Jinjiang City attracted more and more technical people from other areas. Consequently, the importance of local talent decreased (from 61.7% to 38.3%). This was consistent with my observations during my visit to many companies in Jinjiang City. Many technical and managerial staffs I met were from other provinces. For instance, the majority of technical and managerial staffs in Fengzhu Bleaching Dying Company were from other provinces.

Table 8.6 Source regions for technical personnel

Sample	Stage	Local area	Own prov.	Adj. prov.	Rest of China
Aggregated	present	64.2% (113)	27.3% (48)	12.5% (22)	12.5% (22)
	initially	64.8% (114)	15.3% (27)	17.6% (31)	13.1% (23)
Wujiang	present	74.3% (55)	18.9% (14)	20.3% (15)	8.1% (6)
	initially	56.8% (42)	12.2% (9)	33.8% (25)	17.6% (13)
Tongliang-Dazu	present	83.3% (35)	19.0% (8)	2.4% (1)	2.4% (1)
	initially	83.3% (35)	19.0% (8)	2.4% (1)	0%
Jinjiang	present	38.3% (23)	43.3% (26)	10.0% (6)	25.0% (15)
	initially	61.7% (37)	16.7% (10)	8.3% (5)	16.7% (10)

Note: Number in parentheses are the number of enterprises.

The sum of a row is greater than 100% because respondents chose multiple answers.

Interestingly, the Wujiang companies showed a trend opposite to that of Jinjiang companies. The importance of local talent increased as the economy grew, from 56.8% to 74.3%. This was related to the history of rural enterprise development in the area and other local conditions. For example, the practice of Horizontal Cooperation used to be a major form of development in this area in which state enterprises sent technical staffs to help local companies. Thus many companies had technical staffs from non-local sources at the early stage of development. As their businesses grew, local companies became well

established and relied more on themselves for technical personnel. Historically, the Sunan area, in which Wujiang City is located, is an economically and culturally advanced area and known for its high quality of labor resources. Thus, it is fairly easy to find or have people trained as qualified technical personnel in the local area.

The data in Table 8.6 also provide information about the situation of migrant workers in Wujiang and Jinjiang Cities. Wujiang City absorbed 80,000 migration workers in 1994 (data provided by local officials). Since the data shows that it relied less on non-local region for technical personnel, it is reasonable to infer that migration workers from other places were primarily non-technical labor workers. Those people were usually from other rural areas. It means that rural-to-rural migration was the major form in Wujiang City. On the other hand, the data on Jinjiang companies shows that technical people were an important part of migration labor in that area. Since technical people were usually from urban areas, it meant that besides rural-to-rural migration, urban-to-rural migration was also an important form in Jinjiang City, which absorbed 200,000 migrant workers in 1994. In 1991, the number was 120,000 (Liu & Wei, 1992).

Concluding comments of Part One

As discussed in previous chapters, Chinese rural enterprises were characterized by a strong market orientation which gave them a competitive advantage over state-owned enterprises. This market orientation was manifested in the surveyed companies as well. The descriptive results from the survey data showed that those companies were primarily market-driven in their business activities. Regardless of ownership, as market-oriented

business organizations, they had to search for raw material, capital, technical personnel, and customers on their own rather than rely on help from external organizations, such as government agencies. For instance, sale to direct customers was the most popular marketing approach among the surveyed companies.

Furthermore, as discussed in previous chapters, to be market-driven in business operation would inevitably lead to the violation of any artificially imposed restrictions. As long as such rules are incompatible with the basic requirements of business activity, they had to be disregarded. The descriptive results showed that the "Three Locals" (market, raw materials, and production) restrictions were completely ignored by the rural enterprises surveyed. They entered markets where their products were in demand and obtained raw material from wherever they could find it. Only "producing locally" was followed by most rural enterprises. However, this phenomenon was caused by several unique characteristics of Chinese society, for instance, the rural-urban dualism (discussed in Chapter Four). As a matter of fact, at the time of my field research, some very successful rural enterprises started to spread production outside the boundary of local community. This is an inevitable decision that an entrepreneur has to make to maintain momentum of growth. For instance, Hengan Woman's Product Company in Anhui Township of Jinjiang City and Yilong Company of Shengze Township in Wujiang City both took actions to move some of their business operation out of their local communities.

In addition to the general rule of operating a business under the market mechanism, the immediate business environments affected Chinese rural enterprises as well. The data

show that local economic conditions, ties with overseas Chinese, geographic location, cultural tradition, and the policy of local government all affected these companies. For instance, the difference in local government policy explains why rural enterprises in Jinjiang City were primarily private owned while collective ownership was dominant in Wujiang City. Jinjiang government was very permissive, or even encouraging, to private enterprises. On the other hand, Wujiang government made a great effort to ensure the development of collective enterprises (e.g., Fei, 1989). One of my relatives in Wujiang City had to go to Zhejiang Province to open his business. As he explained, a private business had a better chance to grow in Zhejiang Province than in Wujiang City. Another example of the impact of environmental factors on business is that, restricted by local economic conditions and geographic location, the companies of Tongliang and Dazu counties relied heavily on the local community for raw materials, technical personnel, and customers. Those practices in turn had negative impacts on the development potential of rural enterprises in the Tongliang and Dazu area because their resource bases were limited, compared with companies in Jinjiang and Wujiang Cities.

When environmental conditions change, their impacts on entrepreneur activities also changes. This was most evidently reflected in the data about the source regions for technical personnel between initial and present stages of business. The companies of Wujiang and Jinjiang showed completely opposite direction of change due to the different local conditions in each place caused by economic development. On the other hand, the situation of Tongliang and Dazu companies remained unchanged because local conditions changed little over time.

A general conclusion can be drawn from the descriptive results. Based on the data from the companies surveyed, rural enterprises in Jinjiang and Wujiang were much more integrated into the national economy than those of Tongliang-Dazu. They marketed their products, obtained raw materials, and attracted technical personnel nationwide or even worldwide. By contrast, the business activities of Tongliang and Dazu companies were primarily bound within the local areas. This characteristic was usually associated with businesses in economically less-developed areas. It created difficulties for the local economy in these areas because their development potential was restricted due to limited access to critical resources. To break these barriers could be a critical condition for the growth of local economy in backward areas.

Part two: Testing theoretic propositions

This study is guided by a conceptual framework that consists of several theoretic propositions about entrepreneurial activities (See Chapter Three). In the following discussion, some propositions will be tested using the survey data. The data analysis will be divided into two parts: correlational analysis to test the relationships among individual variables and multiple regression analysis to test the conceptual framework as a whole.

1. Subjects of investigation and research hypotheses.

It is contended that human behavior and behavioral outcomes are determined by the joint effect of motive, ability, and environmental factors. Those three factors need to be investigated simultaneously if a comprehensive understanding of human behavior is

intended. Based on this conceptual framework, several variables were emphasized in the survey research.

Variables

First, need for achievement (n Ach) is the motive variable to be investigated. The importance of n Ach in entrepreneurial performance was discussed in Chapter Three. It is assumed that people with a higher level of n Ach prefer entrepreneurial positions and generally perform better as entrepreneurs than those who have a lower level of n Ach. Empirical evidence from various cultural settings supports this proposition (McClelland, 1987; McClelland & Winter, 1969; Rahman, 1988).

Second, the investigation on ability factors focused on general intelligence. Akerman (1984, 1989) suggests that general intelligence is particularly important in dealing with novel tasks. It affects performance by influencing both the quantity and the quality of information acquired, the quality of strategies to deal with a novel situation (Hunter, 1986), and the level of acquired skills. As task complexity, novelty, and inconsistency increase, general intelligence increases in importance (Akerman, 1990). The operation of non-agricultural enterprises is a new experience for most Chinese rural entrepreneurs (Lin, 1990; Zhang & Zu, 1988). The unpredictability of government policies, the transitional social and economic environment, and the incomplete market mechanism further complicate their tasks. Under such conditions, it is reasonable to assume that if one has a high level of general intelligence, he/she may have less difficulties in dealing with various business issues and tend to perform better.

Third, there are two concerns regarding the impact of environmental factors in the survey research. The condition of resource availability is a key to entrepreneurial success (Pfeffer & Salancik, 1978; Fiedler, 1986). In this study, anything needed by an entrepreneur to carry out entrepreneurial tasks, except personal factors, was considered a resource. Whether a variable is environmental or personal is determined according to the definition of an environmental factor presented in Chapter Three (See footnote). Another concern is on the freedom in decision making that refers to the amount of authority an entrepreneur has in making business decisions. Making decision is the major task in managing a business (Stuart-Kotze & Roskin, 1983). This variable may not directly affect the success of an enterprise. Nonetheless, it determines how much influence an entrepreneur can have in business operation. If one does not have enough freedom to make key business decisions, then his actions could have little impact on the performance of his company.

Fourth, the sociological perspective in the survey study is manifest in the emphasis placed on the role of macro environmental factors. These factors can affect human performance at the micro level as well (Kohn, 1989). Two macro variables deserve special attention. First, the development of rural enterprises displayed different patterns in different areas of China. One important factor in forming those patterns was the degree of local government involvement in business operation (Chen & Xai, 1988). Local

DEFINITION OF ENVIRONMENTAL FACTOR: An environmental factor is an object in a behavioral context whose **EXISTENCE**, both qualitative and quantitative, cannot be changed by changing the personal factors of the actor.

governments at various levels played a crucial role in developing rural enterprises (Song & Du, 1990). There were noticeable regional differences in their involvement. In some areas, local governments interfered with detailed operation whereas in other areas, their influences were more towards encouragement through supportive policies and administrative assistance. Government involvement affected the actions of entrepreneur by reducing the impact of top managers on their companies and diverting their personal resources to more technically-oriented tasks.

Another macro variable is inter-regional difference in terms of the level of economic development, judged by major economic index, such as annual gross agricultural and industrial output, local government revenue, and taxes. In modern Chinese history, the inland area is more economically backward than the coastal area. This difference is manifest in the development of rural enterprises as well, as discussed in Chapter 1. According to McClelland (1961), the collective or the average level of n Ach in a nation or a region is positively associated with its economic growth. Some Chinese researchers contend that the lack of entrepreneurial spirit was a major reason for the slow development in backward areas (Wang & Bai, 1991). These propositions were tested empirically in this study. This factor also affects entrepreneurial activities in terms of resource availability. If a business is located in a backward region, it would have greater difficulties in obtaining critical resources, compared with companies in a more advanced region.

Hypotheses

In terms of the conceptual framework presented in Chapter Three, *n Ach* determines whether one wants to pursue an entrepreneurial career and is willing to persist on entrepreneurial activities; ability determines whether one is capable of taking particular actions required for entrepreneurial success; and environmental factors determine whether one has opportunities and the supplies of necessary resources to pursue entrepreneurial goals. Logically, those three sets of variable are the pre-conditions of entrepreneurial success. Each variable is expected to have a positive impact on entrepreneurial performance while controlling the effect of the others. Furthermore, as discussed in Chapter Three, entrepreneurial tasks are underlined by several common requirements that are independent of external conditions. Thus, their positive impacts are expected to hold across different business environment. Fig. 3.1 provides a graphic description regarding the causal relationship between the three major behavioral determinants and entrepreneurial performance. Hypothesis One is to test those causal relationships.

H1. By controlling for all other predictors in the equation, a) *n Ach* will be positively associated with entrepreneurial performance; b) ability will be positively associated with entrepreneurial performance; c) environmental factors will be positively associated with entrepreneurial performance. Those positive associations will hold across all research sites..

In addition to test the conceptual framework as a whole, the association between other individual variables will also be test. First, resource availability can be an effective constraint on one's business decisions. If an entrepreneur is not able to obtain critical resources, his freedom in making business decisions will be restricted. Therefore, a favorable condition of resource availability is expected to be associated with greater freedom in business decision making.

H2. Resource availability will be positively associated with freedom in decision making.

Some Chinese researchers attributed the slow economic development in less developed area to the lack of entrepreneurial spirit (Wang & Bai, 1991). McClelland (1961) also showed that the level of collective n Ach (defined as the average n Ach) in a society was significantly correlated with economic growth. Hypothesis three tests the proposed association between the level of development and the n Ach of entrepreneurs.

H3. On average, entrepreneurs from more developed areas will have higher n Ach than those from less advanced areas.

In less developed areas, conditions of resource availability, such as capital, sources of technical assistance, and supply of market information, are less favorable than those in

the more developed areas. The subjective perception of rural entrepreneurs is expected to reflect the actual situation of resource availability.

H4. Entrepreneurs from more developed areas will report more favorable conditions of resource availability than those from less developed area.

The involvement of local government in managerial activity is primarily on personnel, strategic planing, financing, and revenue allocation but rarely on technical issues, such as making production plans, dealing with technical problems in production, and work-setting arrangement. Thus, if local governments are actively involved in the operation of rural enterprises, the amount of authority of a manager to deal with strategic issues is reduced. Then managers may spend more of their personal resources on technical issues. As result, their freedom in making decisions on technical issues may increase. If local governments are less involved in the operation of enterprises, there will be a great demand for entrepreneurs to concentrate their personal resources on strategic issues, which can be an effective constraint on the freedom in decision making on technical issues.

H5. The increase of local government involvement will be associated with the decrease of freedom in decision making for strategic issues and the increase for technical issues.

2. Measurement.

Each seminar participant completed the Director and Manager Behavior Questionnaire (See Appendix B). The questionnaire covered the major variables that discussed above: need for achievement (n Ach), ability measures, freedom in decision making, resource availability, demographic information, and entrepreneurial performance (measuring the degree of success of an entrepreneur). In addition, information was also collected for exploration purposes on day's of receivable (a measure on the amount of time an entrepreneur needs to receive the payment for products sold), the number of close business partners an entrepreneur has, and so forth.

Need for achievement

An affect-oriented questionnaire measurement of n Ach is developed for this study. The reason I developed the affective measurement, despite the existence of many questionnaire measurement of motive, is that the existing measures do not consistently predicted motive-related performance (McClelland, 1985; McBroom, 1992). Traditionally, questionnaire motive measures "require people to report the extent to which they value an achievement goal and/or possess various motive-related characteristics" (Koestner, Weinberger, & McClelland, 1989). Because the subjects' responses to these questionnaires reflect cognitive evaluations of motive related goals and characteristics, I would classify the traditional questionnaire measures as cognitive based.

The affective measure of n Ach is built upon the proposition that motives are based on emotionally arousing incentives that give rise to positive or negative emotions

(McClelland, 1985). What underlie these measures are the assumptions that 1) people with strong n Ach are attracted by opportunities to be involved in actions driven by achievement concerns, 2) interference with the behavioral processes associated with pursuing those opportunities arouses negative emotion, and 3) the strength of the resulting negative emotion and one's n Ach correspond. Therefore, the magnitude of an individual's negative emotion under such a circumstance can be a valid indicator of n Ach.

To operationalize this idea, the affective measure presents respondents with an imaginary situation in which a person fails to reach an achievement goal or where the opportunity for the attainment of achievement incentive is interfered with. An example of items of such an affective measure is: "How would you feel if your work on a task you accepted fell far below the standard you wished to reach?" Respondents are asked the extent to which they would experience uneasy or uncomfortable feelings regarding this situation. The eleven-point scale is anchored on one end by the words "no feeling" while the other anchor is stated as "unbearable." The affective measure had a total of 24 items.

A cognitive based measure of n Ach was also used to serve as a reference to judge the performance of the affective measure. The cognitive measure was compiled from several published instruments (e.g., Lynn, 1969; Smith, 1973; Steers & Porter, 1979). A sample question for the cognitive measure, which had 12 items, was "I often spend time thinking about how to do my job better." Respondents were asked the extent to which they agreed or disagreed with the statement on a seven-point scale.

Since two types of n Ach measures were used, a comparison of their predictive power of entrepreneurial performance is possible. Previous research showed that n Ach scores assessed by cognitive measures did not differentiate people in terms of their preference in entrepreneurial careers. Those findings hold across different cultural settings as well (McClelland, 1987; McClelland & Winter, 1969; Rahman, 1988). Since the affective measure is assumed a conceptually valid instrument, it is expected to predict entrepreneurial performance.

Supplemental hypothesis: The n Ach scores assessed by the affective measure will correlate positively and significantly with the measure of entrepreneurial performance whereas those by the cognitive measure will not.

Ability

The measure is a self-reported assessment of one's ability in business operation which includes three items. Respondents were asked to assess the degree of how difficult they feel in handling various business issues. A sample question was: "In general, the number of occasions that you were aware of your deficiency at work is:" The scale of response ranged from a great deal to very few on a seven-point scale. It was assumed that if one had a high level of general intelligence, it would be easy for him to quickly grasp necessary knowledge and skills, collect information effectively, and work out proper strategies or techniques to deal with various contingent situations. Consequently, he/she would less frequently experience incidents in which his ability cannot meet the demands

of business operation. Therefore, an individual's assessment in this regard was considered as an estimation of his/her ability. Nonetheless, such a self-reported assessment is not a direct measure of general intelligence and may reflect the impact of other individual variables as well, for instance, the level of one's self-confidence.

Freedom in decision making

Through a search of the literature (e.g., Chen & He, 1988; Campell, 1988; Hansen & Conral, 1991), a list of managerial activities that an entrepreneur may encounter in business operation was compiled. Respondents were asked to estimate the proportion of influence that they had in making decisions on each activity using a range of zero to 100. For instance, in making a decision to hire a middle manager, the opinion of an entrepreneur may account for 80% of the total influence with the rest attribute to other parties, such as local officials and other members of a management team. Thus, the entrepreneur would have 80% freedom in making the hiring decision. The list of activity had thirty items which are divided into two categories: strategic vs. technical activities. Strategic activity has twenty items which covers decisions in hiring, rewarding, promoting, and disciplining middle managerial staffs; in strategic business planning, such as production direction, allocation of capital, and new product development; in marketing strategies, such as deciding target consumers, pricing, and selecting suppliers; and in dealing with community relationship, such as supporting community development, contributing to public affairs, and helping other companies. Technical activities have ten items and covers decision in hiring and punishing labor workers, and in detailed

production activities, such as determining the production quota for labor workers, work site arrangement, and designing work schedules for subordinates.

Resource availability

Respondents were asked to assess the conditions of several major indicators of resource availability based on their personal experiences in business operation, for instance, the conditions of raw material supply, the quality of raw material, the supply of technical personnel, local government support, and the work ethics of employees.

Subjective assessment of objective conditions had practical value for this study. For many indicators of resource availability, objective data were impossible to attain. Even if objective data had been available, practically they were not suited for analysis since the types of business represented by those rural entrepreneurs were so diverse. There was no common base for the analysis of objective data. Under such a condition, a subjective assessment is in fact a better choice since it is independent of the specific type of business and more relevant to each entrepreneur who is the basic unit of analysis in this study. Furthermore subjective assessment reflects objective condition fairly well if the intended construct is not contaminated by the impact of personal factors. In selecting valid environmental factors, this study followed the definition discussed in Chapter Three. A sample item was "The demand for your major product is:" Respondents gave their estimate on a nine-point scale with one end anchored as "very strong" and the other as "very weak." This measure had a total of 21 items which are divided into two categories: general business condition (19 items) and local government support (2 items).

Entrepreneurial performance

On a nine-point scale, entrepreneurs were asked to estimate the performance of their companies in terms of the growth or declining rates of tax and profit, their personal incomes, the average income of labor workers, gross output value, and the number of employees in the past three years (1993-1995). Respondents were also asked to judge the relative position of their own businesses in comparison to the similar companies in the same region on these indexes in the past three years. Fourteen items were included in this measure.

Three factors accounted for the decision to using self-reported performance. First, objective and accurate performance data were virtually non-existent for Chinese rural enterprises. Normally, available statistics were intentionally distorted by entrepreneurs for tax reasons and by local governments for political concerns. The data were often modified to fit a particular agenda. According to my observation, entrepreneurs of private companies almost unanimously under-reported their business performance. Outstanding entrepreneurs of collective enterprises tended to under report their business performance to avoid higher business goals assigned by the local governments. On the other hand, average entrepreneurs would over-report their performance. Consequently, it was very difficult to get objective performance data. Second, similar as the situation of assessing business environment, the entrepreneurs who participated in this study represented extremely diversified business categories. Thus, even if quality objective performance data were available, it was impractical to make a comparison across various business

types. Third, rural entrepreneurs were fairly objective in terms of how well their businesses were doing. They clearly understood their relative position in comparison to other similar businesses in the region. This impression was repeatedly confirmed in my interviews with rural entrepreneurs and local officials. The assessment of a specific company was highly convergent among the opinions of local officials, the host entrepreneur, and other entrepreneurs. Although entrepreneurs were reluctant to discuss how much money they made, they were fairly frank about how well they were doing both in comparison with other entrepreneurs and in terms of their previous performance.

Demographic information

The questionnaire collected information on gender, age, marital status, education, CCP membership, type of ownership, and the year a business was established. Other business related information was also collected on days of receivable (time needed to recover payment), the number of close business partners, and sources of supplies, etc.. Part of these descriptive results have been presented in Part One. In Part Three, the impacts of age, education, and CCP membership on entrepreneurial activities will be analyzed.

Scale mean is calculated for each measure which is the average of total items in that measure. A high score means one is assess high on a given measure, such high n Ach, ability, resource availability, high freedom in decision making, and better performance.

3. Analyses.

Nine variables were assessed in testing hypotheses. First, there are two performance measures: PERSELF, the growth or decline rate of an entrepreneur's company between 1991-1993 (within company comparison) and PEROTHER, the relative position on an entrepreneur's company in terms of business performance compared with similar businesses in the region between 1991-1993 (between-company comparison). The first indicator uses the past performance of one's company as the standard to judge performance whereas the performance of other companies is used as the standard to make judgment in the second indicator.

Motive measures focus on n Ach, as discussed previously. There are two indicators, EmAch, n Ach assessed by the affective measure, and CogAch, n Ach assessed by the cognitive measure. The indicator of self-reported ability measure is CAPABLE, the degree of difficulty that one feels in dealing with business issues. It is assumed that the more difficult one feels, the lower level of ability one has. As discussed previously, the measures of environmental factors are grouped into two indicators, GOVERN, an entrepreneur's judgments on local government support in terms of words and actions, and RESOURCE, general conditions of business environment, such as market demand for the products of one's company, the supply conditions of key technical personnel, capital, skilled labor workers, and raw materials, the work ethic of the labor force and middle management, and access to market information.

The measure of freedom in decision making also has two scales: DECBIG (strategic issues) and DECSMALL (technical issues). DECBIG covers decisions on

middle management, setting production direction, investment directions, raising and using capital, and community relation. DECSMALL includes decisions on labor workers, work site design, and detailed production plan.

Testing the conceptual framework: motive, ability, environment, and entrepreneurial performance

Table 8.7 presents correlations between major variables in the combined sample which includes the survey data from Jinjiang City, Wujiang City, and Tongliang-Dazu Counties. As the results show, the measures of motive, ability, and environmental conditions all correlate with the two measures of entrepreneurial performance positively and significantly, except for the correlation between CAPABLE and PEROTHER. These findings support the propositions that n Ach, individual ability, and environmental conditions are all important factors in entrepreneurial activities.

a. Multiple regression analysis of the conceptual framework.

To test the conceptual framework that motive, ability, environmental factors jointly affect entrepreneurial performance, the impact of each major variable will be analyzed while controlling for the effect of the other variables, as specified in Hypothesis One. Thus, multiple regression analysis was performed with EmAch, CAPABLE, GOVERN, and RESOURCE as independent variables. The three research sites represented different levels of economic development and local government involvement in rural enterprises. Dummy coding is applied to include this categorical variable in the analysis. Two dummy variables were created for the three research sites. Two separate regression analyses were

Table 8.7. Correlation coefficients of major variables.

	M	SD	EmAch	CogAch	CAPABLE	GOVERN	RESOURCE	DECBIG	DECSMALL	PERSELF	PEROTH
EmAch	6.90	1.15	0.80								
CogAch	5.63	0.69	0.31***	0.72							
CAPABLE	4.36	0.99	0.20***	0.12	0.60						
GOVERN	4.56	1.75	0.19**	0.11	0.10	0.85					
RESOURCE	4.47	1.17	0.29***	0.13*	0.47***	0.42***	0.86				
DECBIG	4.91	1.85	0.17**	0.10	0.14*	0.02	0.17**	0.94			
DECSMALL	6.79	2.36	0.04	0.02	0.01	-0.05	0.16**	0.42***	0.92		
PERFSELF	4.32	1.91	0.27***	-0.01	0.21***	0.18**	0.29***	0.04	-0.06	0.91	
PERFOTH	4.37	1.38	0.28***	-0.07	0.09	0.28***	0.30***	0.08	-0.03	0.73***	0.89

Note: 134 < N < 173.

*** p < .01, ** p < .05, * p < .10.

M: Scale mean of measure. SD: Standard deviation.

Internal reliability coefficient (Alpha) of each measure is listed on diagonal.

EmAch: N Ach assessed by the affective measure; CogAch: N Ach assessed by the cognitive measure; CAPABLE: Self-reported ability; GOVERN: Local government support to business; RESOURCE: Availability of business resource; DECBIG: Freedom in making strategic business decision; DECSMALL: Freedom in making decision on operational issues. PERFSELF: Longitudinal measure of performance; PERFOTH: Cross-section measure of performance.

conducted with the two performance measures (within- vs. cross-company comparison) as dependent variable respectively. Each analysis had three steps: testing the interactive effect of research sites, the independent impact by research site, and the fit of the conceptual framework in predicting entrepreneurial performance. Table 8.8 summarizes the results of the multiple regression analysis.

Table 8.8 Multiple regression analysis on entrepreneurial performance.

a. PERFSELF (Within-company comparison) as dependent variable

Variables	SS	SS Change	df	M Square	F.	p
Block1	4160.38		4	1040.10	5.13	< .01
Residual1	27593.94		136	202.90		
Block2	6033.98	1873.57	2	936.79	4.88	< .01
Residual2	25720.37		134	191.94		
Block3	8459.70	2425.72	8	303.22	1.64	insig.
Residual3	23294.65		126	184.88		

b. PERFOTH (Cross-company comparison) as dependent variable

Variables	SS	SS Change	df	M Square	F.	p
Block1	1715.82		4	428.96	7.99	< .01
Residual1	7729.58		144	53.68		
Block2	1896.67	180.85	2	90.43	1.70	insig.
Residual2	7458.73		142	53.16		
Block3	2416.61	519.94	8	64.99	1.24	insig.
Residual3	7028.79		134	52.45		

Note: Block1 includes EmAch, CAPABLE, GOVERN, and RESOURCE. Block2 includes Block1 plus two dummy variables. Block3 includes Block2 plus eight product terms between two dummy variables and Block1 variables.

For both performance measures, the interactive effects of research site were not statistically significant ($F = 1.64$ and $F = 1.24$, respectively). Therefore, the regression coefficients for Emach, CAPABLE, GOVERN, and RESOURCE should be the same for

predicting entrepreneurial performance in the three sites. Practically, this means that these four variables jointly affect entrepreneurial performance in a similar manner across the three sites. Nonetheless, research site does show an independent impact on the within-company comparison performance measure ($F = 4.88, p < .01$). Therefore, different constant terms should be used in regression equations in predicting performance in the three sites. In contrast, site has no independent impact on the cross-company comparison measure of performance ($F = 1.70$, insig.). Finally, each accepted model predicts both performance measures significantly ($R\text{-square} = .19, F = 5.24, p < .01$ and $R\text{-square} = .18, F = 7.99, p < .01$), therein supporting the validity of the conceptual framework of this study.

Table 8.9 R Square and R Square change in multiple regression analysis

	PERFSELF *		PERFOTH **	
	R Square	R Square Change	R Square	R Square Change
Block 1	.1310		.1817	
Block 2	.1900	.0590	.2008	.0107
Block 3	.2664	.0764	.2559	.0551

Note: * Within-company comparison performance measure as dependent variable.

** Cross-company comparison performance measure as dependent variable.

Beta: Standardized regression coefficient.

Further analyses reveal that after controlling for the other four independent variables, EmACh consistently has strong explanatory power to explain both measures of entrepreneurial performance and so does RESOURCE. CAPABLE and GOVERN do not have significant effects on either of the performance measures, though both variables

correlate significantly with performance measures in the combined sample (See Table 8.7). Table 8.10 lists information in this regard.

Table 8.10 Significance test of regression coefficients.

	PERFSEL *			PERFOTH **		
	Beta	t	p	Beta	t	p
EmAch	.236	2.88	< .01	.204	2.54	< .05
CAPABLE	.033	.38	insig.	-.102	-1.81	insig.
GOVERN	.027	.31	insig.	.117	1.39	insig.
RESOURCE	.255	2.55	< .05	.279	2.89	< .01
D1	-.129	-1.34	insig.			
D2	.155	1.60	insig.			

b. Testing other hypotheses.

Table 8.7 also allow tests of H2 and the supplemental hypothesis about the predictive power of the affective and cognitive n Ach measures on entrepreneurial performance. H2 states that the measures of freedom in decision making will positively associated with the measures of resource availability. This hypothesis is partially supported. The results show that there are significant correlations between RESOURCE and the two indicators of decision making (for strategic issues, $r=.21$, $p<.01$, and for detailed operational issues, $r=.18$, $p<.05$). Nonetheless, the correlations between local government support and the two measures of freedom in decision making do not reach statistical significance.

The data also support the supplemental hypothesis that the affective measure of n Ach will correlate significantly and positively with the performance measures and the

cognitive measure will not. Table 8.7. shows that the affective measure of n Ach (EmAch) correlates positively and significantly with both performance measures (Within- and cross-company comparisons), $r=.27$, $p<.01$ and $r=.28$, $p<.01$, respectively. By contrast, the cognitive measure of n Ach (CogAch) fails to show significant correlations with either performance indicator ($r= -.07$ and $r= -.01$, respectively). These results replicate the findings of previous research that cognitive measures were unable to differentiate between more and less successful entrepreneurs (e.g., McClelland, 1987; McClelland & Winter, 1969).

c. Correlational analysis by research site.

Because the survey data were collected independently at each research site, it allows to test the above hypotheses in those three sub-samples. The results address the concerns whether the findings from the combined sample are due to the spurious effects of some extraneous variables, such as the local government policies and the level of economic development, or reflecting the true underlying relationships that hold across situations.

As can be seen from Table 8.11, the supplemental hypothesis is supported by the data of each sub-sample that the cognitive n Ach measure does not correlate with entrepreneurial performance. Also the affective n Ach measure has positive correlations with both performance measures though it does not reach statistically significant in Tongliang-Dazu sample. The results on H2 by individual samples are mixed. Wujiang and Tongliang-Dazu data show a similar pattern of substantially positive correlations

between RESOURCE and the two measures of decision making but not correlation between GOVERN and decision making, as in the combined sample. In the Jinjiang sample, there is no correlation between the measures of environmental conditions and freedom in decision making.

Table 8.11 The correlation between entrepreneurial performance, ability, n Ach, and environmental variables by site.

		CAPABLE	EmAch	CogAch	GOVERN	RESOURCE
Wujiang	PEROTHER	-.06	.27 **	-.13	.16	.33 ***
	PERSELF	.03	.24 **	-.09	.14	.37 ***
	GOVERN	-.05	.01			
	RESOURCE	.24 **	.28 **			
	DECBIG				-.03	.23 *
	DECSMALL				-.06	.29 **
Tongliang	PEROTHER	.09	.27 *	-.04	.53 ***	.16
	PERSELF	.00	.25	.04	.36 **	.28*
	GOVERN	.24	.23			
	RESOURCE	.13	.23			
	DECBIG				-.05	.41 **
	DECSMALL				.12	.16
Jinjiang	PEROTHER	.24 *	.33 **	-.01	.23	.31 **
	PERSELF	.57 ***	.38 ***	.07	.18	.44 ***
	GOVERN	.28 **	.30 **			
	RESOURCE	.33 ***	.35 ***			
	DECBIG				.06	-.04
	DECSMALL				-.09	.00

Note: 39 < N < 70.

*** p < .01. ** p < .05. * p < .10

Test of inter-regional difference on major variables.

a. Level of economic development and collective n Ach.

H3 states that entrepreneurs from more developed areas will have a higher average level of n Ach than those from less advanced areas. This hypothesis is not supported by the quantitative evidence. Though on average, Tongliang-Dazu entrepreneurs ($M=70.05$, $SD=15.29$) did score lower than those of Jinjiang ($M=73.17$, $SD=12.41$) and Wujiang ($M=72.64$, $SD=11.81$) on the affective n Ach measure, the differences do not reach statistically significant ($F=.785$, insig.). Nonetheless, these findings may not be evidence that the average level of n Ach in a region has no impact on the economic development. There could be several plausible explanations. First, the sample only includes those who were already in entrepreneur positions. Conceptually, the n Ach profile of entrepreneur population can be similar to each other. Thus, the average n Ach of an entrepreneur sample may not be representative of the average level of n Ach in the whole population of each site.

Second, the three research sites may not differ from each other in terms of the level of collective n Ach. Although those places differed significantly in economic development, one characteristic shared by people in these areas is that they are known in China for hard working and a strong desire for excellence. Tongliang and Dazu were considered economically backward in this study. This area belonged to Sichuan Province. In China, Sichuan people are famous for their capability and willingness to take on harsh working conditions, being proactive in exploring opportunities, and persistence

and determination in the face of difficulty. In Tongliang and Dazu, evidence was everywhere to support these popular perceptions. For instance, I was very impressed by the fact that there was virtually no wasted land. Crops and vegetables were planted at every imaginable place. Vegetables were even planted in a traffic rotary at the intersection of several main roads. These extraordinary efforts to strive for high efficiency and fully utilize resources under given environmental conditions represent concrete actions to surpass a standard of excellence and correspond with the key characteristics of people with higher n Ach. It is reasonable to infer that people in this area should have a higher level of collective n Ach.

Jinjiang City is a place with a strong achievement orientation as well. When I attended a conference on rural development in Jinjiang City, I met many people who were very familiar with the characters of Jinjiang people. They all agreed that Jinjiang people had an unusually strong fighting will though it used to be a very poor area. A unique example was given by an official of the sports organization. He told me that the people of Fujian Province, in which Jinjiang City is located, were generally short. However, there was a period that the Fujian basketball team was ranked among the top four in the nation. An important cause for the success of that basketball team was the strong fighting will of its players. Interestingly, most of those players were from the areas around and including Jinjiang City. He also said that this area used to be a major source of good athletes because its people were so competitive.

Wujiang City has the similar situation. In contemporary Chinese history, the Yangtze Delta area, in which Wujiang City is located, is the birth place of modern

commercial and industrial activities. By the end of Ming Dynasty (1368-1644), the large-scale commercial production of silk products started to emerge. Since then, this area has always been the most advanced in modern commercial and industrial activities in China. This tradition nurtured a strong commercial mentality in this area, which was considered by some scholars as a key for the development of rural enterprises (e.g., Tao, 1988). People in this area are also known to be efficient, innovative, and able to make better things.

Given those conditions, the different sites of this study may not be appropriate to test the impact of collective n Ach on regional economic development. In terms of popular perception, there are some backward areas in which people's behavioral patterns do suggest low collective n Ach. If representative samples can be drawn from these areas, then the hypothesis can be tested properly.

b. Business environment and the level of economic development.

Table 8.12 ANOVA test on environmental variables by site

	Government Support	Other Resources
Wujiang	M=4.89, SD=1.44	M=4.78, SD=1.07
Tongliang-Dazu	M=4.04, SD=1.87	M=4.11, SD=1.24
Jinjiang	M=4.53, SD=1.95	M=4.38, SD=1.23
Results of ANOVA	F=3.18, p < .05	F=4.57, p < .01

H4 states that entrepreneurs from more developed areas will report more favorable conditions of resource availability than those from less developed areas. In testing this

hypothesis, the measure of business environmental condition was divided into two parts: support of local government and availability of other business resources. Table 8.12 presents the results of ANOVA analysis and this hypothesis is supported. On the two measures of environmental factors, the reports of entrepreneurs from the Tongliang-Dazu area are lower than those from the Wujiang and Jinjiang areas. These results are in consistent with the findings based on qualitative data. Among all three sites, the Tongliang and Dazu governments were the least supportive of the development of rural enterprises. This issue has been briefly discussed in the previous section and will be discussed thoroughly in Chapter Nine. As to the situation of other business resources, it is understandable that the disadvantaged geographic location and isolated economy of the Tongliang-Dazu area caused more difficulties. Wujiang entrepreneurs reported the most favorable business conditions that were consistent with the findings from the qualitative data as well. Although the rural enterprises in Jinjiang City achieved extraordinary progress, due to historical and geographical reasons, its business conditions were not as favorable as those of Wujiang City up to the time when I did my research there (see Appendix A.).

c. Freedom in business decision making.

The evidence for H5 is less straightforward compared with those for other hypotheses. This hypothesis states that an increase in local government involvement will lead to a decrease in freedom in decision making on strategic issues but an increase in operational issues. Among the three sites, the Wujiang and Tongliang-Dazu governments

had greater power over rural enterprises because most business in these two places were collectively owned. By contrast, the Jinjiang government had the least involvement in the business operation of local companies. The results in Table 8.13 show that Wujiang and Tongliang-Dazu entrepreneurs reported significantly high freedom in making decisions on operational issues than did Jinjiang entrepreneurs ($F=6.94, p<.01$). The results on strategic issues are not supportive to the hypothesis. Jinjiang entrepreneurs still reported less freedom though the difference is not strongly significant.

Table 8.13 Test of freedom in decision making by research site

	DECBIG (Strategic issues)	DECSMALL (Technical issues)	Test of difference between two issues
Wujiang	M=5.28, SD=1.59	M=7.26, SD=2.22	$t = -7.90, p < .01$
Tongliang-Dazu	M=5.20, SD=1.73	M=7.38, SD=1.77	$t = -8.45, p < .01$
Jinjiang	M=4.56, SD=1.98	M=5.85, SD=2.51	$t = -3.26, p < .01$
ANOVA results	$F=2.56, p < .10$	$F=6.94, p < .01$	

Two patterns can be identified in Table 8.13. First, the Jinjiang businesses in the sample were exclusively private owned and those in the Wujiang and Tongliang-Dazu samples were exclusively collective ownership. It appears that entrepreneurs from collective business reported higher freedom in decision making on both strategic and operational issues than private entrepreneurs did. Second, entrepreneurs in all three sites reported higher freedom in making business decisions on operational issues than on strategic issues. The results of post hoc paired-sample t-test showed that the differences are statistically significant in all three sites and the combined sample ($t = -10.03, p < .01$).

It is interesting that entrepreneurs of private businesses reported lower freedom on both measures of decision making than did entrepreneurs of collective business. This is contrary to popular perception and what was reported by rural entrepreneurs during my interviews. Many people contended that entrepreneurs of private business had more freedom in making business decisions than those in collective and state enterprises. In terms of my observation, this view was unanimously held by managers in state enterprises, collective enterprises, and private companies. Many ordinary people supported this view as well. The rationale is that as the sole owner of everything in a private business, legally, a private entrepreneur should have full power in making any decision within the organization. By contrast, the managers of collective enterprises are in theory hired by local government to manage community properties. As a result, local government can have substantial impact in business operation. During my field study, many entrepreneurs of collective enterprises admired their counterparts in private businesses because they believed that the latter enjoyed substantial more freedom in operating their businesses. They told me that if they could have the same amount of freedom enjoyed by the private entrepreneurs, their businesses would grow much faster. On the other hand, these private entrepreneurs also believed that they had more freedom in making business decision than collective entrepreneurs did.

Nonetheless, by reviewing the information collected through extensive interviews with both collective and private entrepreneurs, this result actually matches the reality. The measure of freedom in decision making assesses to what extent an entrepreneur's personal preference contributes to the final decision. The data show that the personal

preference of a private entrepreneur had less impact in making business decisions than did a collective entrepreneur. This phenomenon can be explained by the fact that a private entrepreneur needs to bear full responsibility for the consequence of his decision. On the other hand, a collective entrepreneur is only partially responsible because part of the responsibility is shared by the local government. Therefore, a private entrepreneur would be more cautious and primarily make decisions based on the calculation of business conditions rather than on his or her own preference. A collective entrepreneur may make decision relatively more on personal preference because the risk of failure could be shared by others. Therefore, this finding suggests that the popular perception may be misleading. Though a private entrepreneur has greater legal right over his business than does a collective entrepreneur, his greater responsibility for the outcome of his business decision could reduce the impact of personal preference.

Part Three: Exploring the impacts of age, education, and CCP membership on entrepreneurial activities.

This section explores the relationships between several concerned variables. The initial purposes was to explore the impacts of age, education, CCP membership, and sex on major variables. Since few female entrepreneurs attended the seminar, the achieved sample is almost exclusively male respondents (92.6%, N=163). Thus, it is impractical to investigate the impact of sex. In addition to the variables discussed in the previous sections, other variables of interest include days of receivable and number of close business partners.

According to media reports, triangular debt was a serious problem in business operation, particularly in state enterprises. It refers to a deadlock situation in which a company cannot get timely payment from the sales of its products and therefore has to delay payment on its own debt. When I conducted field research in China, there were reports that this phenomenon had started to spread to rural enterprises. It created difficulties for many companies because there was not enough cash flow to maintain normal business operation. Several entrepreneurs also complained that they had difficulties to get payment on time. When I visited a company in Shaxi Township of Taicang City, the general manager could not spend time with me because he was in the middle of a staff meeting to discuss the strategy of collecting outstanding payments. The deputy manager, who accompanied me to tour the company, said that the collection of outstanding payments was their first priority at that time. It would be interesting to explore the impact of some major variables on days of receivable for a business.

The interest in number of close business partners that an entrepreneur has relates to the subject of this study. Traditionally, rural areas are relatively isolated from the outside, as compared with the situation in urban areas. Rural people tend to confine their activities within the boundary of local community, often within their home village. To operate a modern industrial business, however, an entrepreneur need to reach out and cooperate with people outside the local community. To some extent, the number of close business partners reflects the degree of openness of an entrepreneur in business operation.

Age, education, and entrepreneurial activities

In the combined sample, entrepreneurs' age correlates negatively and significantly with the affective measure of n Ach ($r = -.18, p < .05$). It has no significant correlation with other variables. Among three research sites, this result holds in the Wujiang ($r = -.28, p < .05$) and Tongliang-Dazu ($r = -.31, p < .05$) samples, but not in the Jinjiang sample ($r = -.00$, insig.). Though age appears had some relevance to the n Ach of a manager of a collective enterprise, the influence was not strong. This variable does not correlate with either of the entrepreneurial performance measures and any of other major variables.

Table 8.14 The correlation between education and need for achievement, day of receivable, and the number of close business partners.

	EmAch	CogAch	Days of receivable	No. of close partners
Combined Sample	.24 ***	.32 ***	-.27 ***	.18 **
Wujiang	.19 *	.17	-.30 ***	.10
Tongliang-Dazu	.36 **	.32 **	-.20	.47 ***
Jinjiang	.20	.43 ***	-.27 **	.25

Note: 1. EmAch, n Ach assessed by the affective measure; CogAch, n Ach assessed by the cognitive measure.

2. $42 < N < 174$

3. *** $p < .01$; ** $p < .05$; * $p < .10$

Compared with the impact of age, the level of formal education attained by rural entrepreneurs had more statistically significant correlations with other variables in this study. Table 8.14 shows that level of education significantly and positively correlates with the affective measure of n Ach, the cognitive measure of n Ach, and the measure of the number of close business partners. Education also correlates significantly with the

measure of days of receivable but in a negative direction. In each individual sample, the correlations are all in the same direction as those in the combined sample.

In Chapter Four, the strong achievement orientation of Chinese culture and the CCP's education effort were discussed in detail. It is reasonable to infer that such an orientation should have a strong impact on the practice of educational institutes in the Chinese society. That the level of formal education attained correlates significantly with the affective n Ach measure should be viewed as the evidence in this regard. Investment in education is widely regarded as an important approach to promote economic development. This finding implies that its impact on people's motive is part of the reason for education's positive contribution to the economy. The significant correlation between education and the cognitive measure of n Ach is easy to understand. The cognitive measure actually assesses the extent to which one accepts the societal values on achievement related issues. Instilling societal values is always a mission of educational institutes. Therefore, the more time one spends in school, the more likely one is to identify with societal values.

The significant and negative correlation between level of education and days of receivable is an interesting phenomenon. It suggests that the higher one's formal education, the longer the time an entrepreneur must wait to get payment for his products. A plausible explanation of this finding is related to some popular perceptions in Chinese society. It is contended that the longer the time one spends on formal education, the "thinner the skin" a person has. Consequently, an educated person would be less

comfortable with direct confrontation, feel awkward while encountering an unfriendly response, and be ashamed to speak out to protect his own interests. To ask people to pay back money requires an entrepreneur to have a "thicker skin." One should not be bothered by others' cold or miserable faces. Usually people with less formal education would be more "street smart" which is the knowledge learned through real life experience in the society. "Thicker skin" is an important part of "street smart." Furthermore, Chinese rural enterprises were developed in a transition society where the rules for business operation under market conditions were not well established. Rural entrepreneurs had to deal with various business problems mainly through informal interpersonal contact. Without the assistance of established rules to regulate business activities, one had to be comfortable to stand up and ask for his own money back. Therefore, it makes sense why level of education has a negative impact on days of receivable. In terms of findings in this study, formal education may have positive impact on entrepreneurial activities by raising the level of n Ach. But, it may also exert a negative impact by hindering the development of some critical entrepreneurial skills.

A post hoc explanation for the significant correlation between formal education and number of close business partners may be that education helps to reduce the isolation mentality of rural people and broaden their view of the world. Traditional Chinese rural areas were characterized as "people in one village can hear chicks singing and dogs barking in other villages, but will never meet each other all their lives" (Jiquan Xiangwen, Laosi Buxiang Wanglai). The experience of modern education would certainly help to break one's static mind-set. Table 8.15 shows the impact of education is much

stronger in the backward Tongliang-Dazu area than in the more advanced areas of Jinjiang and Wujiang. This might be explained by the fact that the advanced areas could offer a greater variety of opportunities, in addition to formal education, for people to know the outside world. For instance, Wujiang City is close to several major industrial centers and Jinjiang City has strong connections with overseas Chinese. People's understanding about the outside world are more independent of the amount of formal education they received. Thus, whether a business was conducted in an open or isolated manner, as indicated by the number of close partners, was less affected by level of formal education. On the other hand, the Tongliang-Dazu area is located in the heartland of China. It has fewer and weaker links with the outside. Formal education becomes a critical channel for access to the information of the outside. The less formal education received, then, means less knowledge about the outside. Consequently, whether a business was operated in a more open or closed manner had greater relevance to the amount of formal education that an entrepreneur received.

CCP membership and entrepreneurial activities

In explaining the success of rural entrepreneurs, a theme frequently emerged in both popular perception and scholarly research. It contended that former government officials should be in advantaged positions in business operation and therefore more successful than people without previous experiences as government officials. Such a structural explanation claims that during their tenure as officials, they could establish connections with various government agencies and key officials. Those connections allowed them

easy access to business resources in a society like China where governments have strong administrative power.

The qualitative evidence collected in this study shows that this claim is not true. One's previous experience as a government official does not bring special advantage to business operation (See Chapter Four). This claim can also be tested quantitatively. In the past, CCP membership was a precondition to become a government official. This is still largely true in China. CCP membership is also a good indicator of close relationship with government agencies and key officials. Thus, whether CCP membership benefited entrepreneurs in business operation could be a test of this claim. Table 8.15 summarizes t-test results of differences between CCP members and non-members on major variables.

The data show that CCP membership had no significant impact on entrepreneurial success or on any variables which predicts it. It does have a significant effect on age, cognitive n Ach, and education. For both within-company comparison (PERSELF) and cross-company comparison (PEROTHER) measures of performance, the scale means for the two groups are almost identical. The only variable that shows any significant difference between members and non-members is the measure about the number of close business partners. Non-members had significantly more partners than did entrepreneurs with CCP membership. A plausible explanation of this result may be that the latter relied more on government agencies for support whereas the former received more support from business partners. Therefore, it may indicate that entrepreneurs with CCP membership did enjoy closer relationships with government agencies. Nonetheless, those close

relationships did not have any impact on entrepreneurial performance, as Table 8.15 shows.

Table 8.15. CCP membership and entrepreneurial activities*

Variable	CCP member	Mean**	SD	t	p
Age	member***	3.09	.78	2.37	< .05
	non-member	2.79	.90		
Education	member	3.95	1.22	2.52	<.05
	non-member	3.50	1.11		
CogAch	member	5.74	.64	2.39	<.05
	non-member	5.49	.74		
No. of Partner	member	2.94	1.62	-2.67	< .01
	non-member	3.64	1.45		
EmAch	member	7.27	1.20	.62	insig.
	non-member	7.15	1.40		
CAPABLE	member	4.42	.90	.92	insig.
	non-member	4.28	1.11		
GOVERN	member	4.65	1.57	.84	insig.
	non-member	4.42	1.97		
RESOURCE	member	4.63	1.08	1.75	insig.
	non-member	4.30	1.31		
PERSELF	member	4.32	1.83	.01	insig.
	non-member	4.32	2.03		
PEROTHER	member	4.37	1.44	.00	insig.
	non-member	4.37	1.32		

Note: * See Table 8.7 for the explanation of each variable.
 ** Mean is the scale mean of each measure.
 *** N for member is 100. 76 for non-member

Finally, CCP members scored significantly higher on the cognitive measure of n Ach than non-members did. Since the cognitive measure assesses the extent to which on accepts the societal value on achievement-related issues, it is easy to understand this result because the CCP selects those who comply with societal values as party members.

Also on average, CCP members were older and had attained higher levels of formal education than those non-CCP members. Nonetheless, as discussed above, those variables have not impact on entrepreneurial success.

Review of quantitative analyses.

Key findings.

a. Validity of the conceptual framework: The quantitative evidence converges with the findings from the qualitative analysis and supports the validity of the conceptual framework in this study that human behavior is jointly determined by personal and environmental factors. As a particular category of human action, entrepreneurial activities follow this general rule as well. The measures of both personal and environmental factors show a significant and positive correlation with the measures of entrepreneurial performance. The regression model that includes motive, ability, and environmental variables (government support and resource availability) predicts entrepreneurial performance strongly.

b. The importance of need for achievement: The quantitative evidence in this section supports the central theme of "Achieving Society" (McClelland, 1961) that need for achievement (n Ach) is a key for entrepreneurial success and economic development. The affective measure of n Ach shows significant and positive relationships with both measures of performance and in all three research sites. It makes perfect sense that if one does not want to try or not try hard enough, it would be very difficult, if not impossible,

to reach an expected goal, regardless of how smart a person is and how favorable the external conditions are. This finding provides supportive evidence about the generalizability of McClelland's proposition in different cultural, social, political, and economic settings.

Furthermore, the cognitive measure of *n Ach* does not have significant relationship with the performance measure. The difference between the affective and cognitive measures is that the former focuses on one's emotional state in pursuing opportunities to excelling whereas the latter focuses on one's rational judgment in doing so. Based on the findings of this study, it is clear that people's emotional states are predictive of entrepreneurial performance whereas their rational judgments are not.

Motive is generally neglected in studying human behavior due to measurement difficulties. Some researchers even claimed "It is well-known that the kind of personality traits that make for a good entrepreneur cannot be easily identified" (Wong & Yang, 1995). The finding about the importance of *n Ach* in entrepreneurial performance suggests that the neglect can be a significant deficiency for achieving a comprehensive understanding of human behavior. Motive is a variable that relates to why a person wants to take a specific action and persist in it. If the driving force of behavior is not analyzed, the understanding of human behavior will be restricted to describing phenomena rather than revealing underlying causes.

c. In terms of the other three variables in the regression model, the measure of resource availability (RESOURCE) also has a strong and consistent impact on

entrepreneurial performance. It is understandable that material conditions are universally critical factors that affect business operation.

d. Local government support and entrepreneurial performance: In the combined sample, the measure of local government support to rural enterprises has a significant impact on both performance measures. Nonetheless, further analysis shows that this variable only significantly and positively correlate with performance in the Tongliang-Dazu sample but not in Wujiang and Jinjiang samples (See Table 8.9).

To understand this finding, the conditions of each research site need to be considered. Among the three sites, Wujiang and Jinjiang governments were supportive to rural enterprises without discretion. They created favorable local business environments that were accessible to all companies. Since access to government support was relatively equal, this factor has less power to differentiate more and less successful entrepreneurs in the Wujiang and Jinjiang areas. On the other hand, the Tongliang and Dazu governments were more conservative in supporting rural enterprises. Under such a circumstance, personal connections often played an important role in getting differential treatment from the government. Whether one could win the support of local government could have a significant impact on the performance of his business. Consequently, as the data show, the measure of local government support is related to business performance in Tongliang and Dazu counties. This issue will be discussed thoroughly in Chapter Nine.

e. There are other findings worth mentioning here. First, contrary to popular perception, entrepreneurs of collective enterprises reported that they had more freedom in making business decision than did private entrepreneurs. Second, education showed a

positive impact on achievement motive and the number of close business partners, indicating the extent to which an individual conducts business in an open manner. At meantime, formal education has a negative impact on the measure of days of receivable. It implies that school education may hinder the development of some critical entrepreneurial skills. Third, CCP membership did not have a significant impact on entrepreneurial success and variables which predict it. This finding indirectly rejects the popular perception that one's experience as an government official may associate with entrepreneurial success. Fourth, in the less developed area (Tongliang-Dazu in this study), rural enterprises primarily relied on local resources, such as capital, technical personnel, customer, and raw materials. Narrow resource base can be a hindering factor of development.

f. The last finding to be discussed is about the phenomenon of urban-to-rural migration in the development of rural enterprise. Rural-to-urban and rural-to-rural migration of the agricultural surplus labor force has received wide attention in the analyses of Chinese rural development. Nonetheless, the evidence from this study suggests that urban-to-rural migration of technical and managerial personnel also existed. Though this type of movement is much less significant judged by the number of people involved, its impact on rural enterprises is critical. It supplied rural enterprises with much needed quality technical and managerial personnel.

Limitations

The major hypotheses were supported and other meaningful results were derived in the survey research. Nonetheless, there are lessons to be learned as well. Several noticeable weaknesses in the research design did cause difficulties or the results should have been better. The discussion of those weaknesses suggests areas of improvement for future research in similar situations.

First, one important piece of information missing from the quantitative data is the military service background of rural entrepreneurs. To serve in the army used to be one of the few opportunities through which rural youth could leave their home community, thereby exposing themselves to the outside world and getting to know people of other areas. This experience is very educational in many ways. Compared with those who never left their home communities, people with military service background usually were more knowledgeable about the outside world and more confident in dealing with strangers and people of higher social status groups. They were more sensitive to the primitive conditions of rural area since they usually had opportunities to experience or to be exposed to more advanced life styles. Such sensitivity can be a driving force for change. Another important benefit of serving in the army was the opportunity to establish relationships with people from other areas which can be a powerful network for access to various resources. The relationship established during military service is a major channel for rural-to-rural and rural-to-urban connections, as discussed in the Chapter 4.

Given these advantages, a noticeable phenomenon in the development of Chinese rural enterprises is that a significant portion of rural entrepreneurs had military service

background. My interviews with rural entrepreneurs revealed that many had served in the army. In most cases, they agreed that the experience was very helpful to their businesses. They became more open, less conservative, more disciplined, and more proactive. The qualitative evidence suggests that this experience had a positive impact on the development of rural enterprises. But this qualitative findings could not be tested with quantitative data in this study. This is an issue that needs to be addressed in future study.

The second weakness of the survey study is that none of the three sites selected was known to have a low level of collective n Ach in China. The lack of variance on the level of collective n Ach created difficulties in testing a major hypothesis that this variable had significant impact on regional economic development. Although many practical difficulties prevented me from winning the cooperation of local government in the desired areas for this study, it would be desirable to include such an area in the analysis.

Finally, although I tried my best, this study failed to collect any objective performance data. The evidence from various sources suggested that the self-reported performance data did reflect the actual situation fairly accurately. The results of quantitative analysis also support this proposition. Nevertheless, it is still desirable to have objective performance data. This problem was largely due to the fact that the bookkeeping of Chinese rural enterprises was generally very poor. For various reasons, there were also many intentional distortions of statistics. The volatile business environment due to the transition nature of Chinese society at that time and the fact that the formal rules of business activities were not well established provided both

opportunities and incentives to alter the data for the interests of relevant parties.

Consequently, objective data were both hard to get and lack of reliability.

Conclusion

Theoretically, it is commonly acknowledged that human behavior is determined by the joint effect of personal and environmental factors. However, few studies focus on both factors simultaneously. The common practice is to hold one major set of variables as constant and focus on the other set. Although meaningful findings can be achieved, this approach inevitably misses information that is critical for a comprehensive understanding of research subjects. Reflecting this concern, both the qualitative and quantitative parts of this study were designed to investigate the impacts of personal and environmental factors simultaneously.

The quantitative part of this study was devoted to an empirical test of the propositions derived from the conceptual framework and to verify some major findings based on the analysis of qualitative data. In general, the results were supportive of both the findings from the qualitative data and the relevant theoretic propositions. The quantitative analysis provided evidence that entrepreneurial performance is affected by the joint effect of motive, ability, and environmental factors. The design to collect data from three sites that differed in many aspects proved to be important. Unique regional patterns were observed regarding how performance was affected. These patterns were closely associated with the distinctive conditions of each site, providing evidence that environment conditions determined how a general rule operated in a particular setting.

Furthermore, the finding that n Ach is a critical factor in entrepreneurial activities in Chinese rural enterprises provided quantitative evidence to support the major propositions in “Achieving Society,” in addition to qualitative evidence discussed in Chapter Six.

Given these findings, it is reasonable to conclude that a holistic approach which focuses on the effects of major behavioral determinants produce better understanding on a research subject. If, for instance, the data were only collected from one site, then findings would be restricted to a narrower scope. Consequently, the findings of this study would have less practical value. To achieve a comprehensive understanding, the use of a holistic approach should be a goal in future research attempts.

Chapter Nine

Mao Zedong, “Achieving Society,” Local Governments, etc.

---- Important Issues Revisited

If people want to dig deep to understand the development of Chinese rural enterprises, many questions still remain unanswered despite the discussion in the previous chapters. For instance, what explain the fact that the Chinese government changed its policy priority in the economic reform without substantially changing the political structure? What are the driving forces behind CCP’s education effort and many major movements by the CCP which had crucial impacts on rural enterprises? What accounted for the inter-regional difference in the development of rural enterprises? Conceptually, is there any resemblance between the development of Chinese rural enterprise and the progresses in other societies. The object of this chapter is to shed light on some of these issues, which include the impact of Mao Zedong’s legacy, the reason that the CCP adopted a pragmatic attitude in dealing with economic issues after the economic reform, the relationship between the actions of local governments and inter-regional difference, and the suitability of major propositions in McClelland’s “Achieving Society”

1. Mao Zedong’s legacy: The foundation of takeoff

Mao Zedong is the most important figure in the contemporary Chinese history and a true revolutionist driven by his passionate love to China. He is a revolutionist in a sense

that he constantly challenged the past and wanted to create a different and better future. He loved the country so much that he was extremely frustrated by the fact that China was helpless and powerless while facing the aggression from the West. Throughout his legendary life, all his major actions reflected his dream to help the nation to stand-up, to be well respected in the world, and to revive the glory that China had enjoyed for thousands of years. Many of his stormy and unprecedented actions were almost unthinkable by ordinary people. They caused significant changes in the cultural tradition, the structure of society, and people's minds in China. Those changes have profound implications to what have happened and are happening in today's Chinese society. This is also true for the development of Chinese rural enterprises.

It is a fashion these days that many elite members in China and other countries accused Mao for many tragedies in the recent Chinese history. Very likely, their accusations have some factual foundations. Nevertheless, people also need to recognize Mao for his great contribution to many important changes in Chinese society. Those changes are the foundations of many great achievements in the nation since he left his people, for instance, the success of rural enterprises. I can imagine that there will be quite a few people who would not be happy with this claim but it is based on the fact.

Shocked by the inability of China in countering the Western aggression, Chinese elite started to search for ways to revive the nation. Such an effort progressed to a point that people started soul-search for China (Chen, 1994). As early as "the May Fourth Movement" in 1914, a few prominent Chinese scholars began to recognize that some critical cultural deficiencies were the major causes for the helpless and powerless

situation of China. Those deficiencies prevented the nation to catch up with the advanced countries. Many people tried to reform Chinese culture and make it more competitive in the modern world. Unfortunately, most efforts achieved little success. It is fair to say that Mao is the only person who really caused significant changes in Chinese culture. He was able to do so because he had thorough understanding about the causes of problems, a clear vision about the direction of action, a strong passion and great courage to take actions, and absolute authority and sufficient time to carry out his plan. His absolute authority was endowed to him because so many times he stood up against formidable challenges under extremely difficult conditions, came up with right solutions, and succeeded at last.

The creation of a change and future oriented society

Mao's legacy can be summarized in several categories. First, he made great effort to transform the Chinese society into a future oriented rather than past-bound society. In his mind, the whole society should be supportive and open to change. People should be willing to accept and try new ideas, new phenomena, and new approaches. His effort in this regard directly conflicted with the core of traditional Chinese culture. The primary goal of Confucian political philosophy is to maintain the order and stability of the society. Consequently, changes and new ideas are discouraged. Largely due to this tradition, from the Spring-Autumn and Warrior periods of more than two thousand years ago to the early nineteenth century when the West opened the door of China with canon and warship, no fundamental change ever occurred in the Chinese thinking. People rarely ventured outside

the teaching of Confucianism to search for new idea and knowledge. When China was not challenged by superior external cultures, this inward-looking system worked well because it had a very effective mechanism to dissolve internal conflicts. Unfortunately, when China was challenged by the superior Western cultures, this system showed fatal weaknesses. It was very ineffective to make necessary change to itself and to deal with the new situation. Under the traditional Chinese culture, people were trained to maintain the tradition rather than to improve the situation. They were good at remembering old knowledge but not at creating new ideas.

Obviously, this type of thinking has to be changed if China wants to catch up with the West. Under Mao's leadership, CCP initiated many stormy and long lasting actions to educate, even force people to give up the old and adopt the new. One obvious evidence of CCP's effort was to saturate people's daily lives with changing themes. As I remembered, there were many high frequency usage phrases that served this purpose, such as "Jiefang Sixiang (liberate one's mind)," "Fandui Yinxun Shoujou (don't passively stick to the existing rule and follow the tradition)," "Bupo Buli (the old has to be force to give away and then the new can be developed)," and "Gaitian Huandi (change the nature)." People were encouraged to "dare to do what no one else has ever done before and dare to think what no one else has ever thought of before." Traditional thinking and behavior were attacked in all directions by words and actions. In the education system, Mao strongly rejected the tradition that students could not question the authority of teachers. He encouraged independent thinking of students and emphasized that the education should be driven to solve practical problems in the society rather than to serve the traditional

purpose of making elite. In literature and art, he completely denied the tradition that only glorified elite and paid little attention to ordinary people. On many historical issues, he reversed the previous official views and provided completely different explanations, for instance, he gave positive evaluations on the first emperor of China (Qinshihuang) and another famous historical figure (Cao Cao) whom were traditionally viewed as the evil symbols. He encouraged people to "Po Sijiu (Break four old habits)," "Yifeng Yisu (Change old life style and custom)," and "Pochu Fenjiang Sixiang (Give up the old ideas)." Because of Mao's absolute authority and CCP's strong organization, these ideas touched almost every Chinese and became the daily routine of people's lives for a long time. Between 1949 and 1978, it was a period of many massive political movements. People's minds were constantly shaken up in those consecutive movements.

Mao's mind liberation effort went to a point that he did not hesitate to destroy what he had established in order to create new things. The great cultural revolution is a typical case. Looking back in human history, there is never such a case that a ruler with absolute power would completely change the power structure established by himself. Unlike the popular opinion to attribute the cultural revolution as result of power struggle, its name perfectly reflected its essence. It was indeed a cultural revolution. Mao was a leader with dream. His actions were primarily driven by his dream. Power was only the tool to realized his dream. This is completely different from most politicians that chasing power is their ultimate goals. The mind shake-up of the whole nation reached a pinnacle during the Cultural Revolution. Basically, Mao turned the whole society upside down in this movement. It was a revolution in a true term again. The rulers became the ruled and

the ruled became rulers overnight. Old had to learn from young. Teachers had to learn from the students. Intellectuals had to learn from workers and peasants. The traditional social hierarchy was reversed 180 degrees.

It has no need to deny that the shakeup in such a massive scale caused significant damages to Chinese society. Those damages have been well documented. However, the shakeup does effectively serve the purpose of reforming people's thinking. The reformed mind set of Chinese people is a precious asset for the nation to move into the future. For a mind set kept unchanged for two thousand years, it was unrealistic to find a comfortable way to change it. No pain, no gain. It is that simple. Even quitting smoke can be a painful process for many people.

Nurturing pragmatic attitude in problem solving

Given that Mao made great efforts to change Chinese society as future-oriented rather than past-bound, then what was the solution for a bright future? As a very idealistic person, he was very practical in this regard. Mao always emphasized that any solution had to suit the reality to be effective. He tried very hard to educate people that the conditions of Chinese society had to be considered when new ideas and new approaches were introduced. There were many high frequency phrases used for this purpose at that time, such as "Lilun Lianxi Shiji (reality based theory or solution)", "Cong Shiji Chufa (using situation-specific strategy or approach)", and "Fangdui Jiaotiao Zhuyi (rejecting dogmatism)." Criticizing and self-criticizing were promoted by Mao as an effective

approach to change people's thoughts. In that process, overlooking the actual condition in deciding the course of action was a frequently criticized weakness.

Although he emphasized the importance to change the part of tradition that was incompatible with the need of modernizing the nation, Mao did not blindly endorse anything that looked new and promising. As a derivation of this principle, he also emphasized that Chinese people should have their own ideas and approaches to solve Chinese problems, not to blindly copy foreign ideas. Foreign experiences have the value of reference but have to be modified to adapt to Chinese conditions, particularly on political, social, economic, and cultural issues.

This effort was aimed at another form of thinking in Chinese society that also had a negative impact on the development. When Chinese and the Western cultures began their large scale interaction in recent two or three hundred years, the latter were obviously more adaptive to a modern society and the former showed significant deficiencies. Having witnessed that China was powerless and helpless in resisting the Western aggression, many Chinese, particularly intellectuals, went to another extreme of thinking, from completely endorse the past to blindly endorse the Western ideas. They wanted to completely deny Chinese culture and to copy foreign ideas without any modification. In terms of their views, anything of the West was good and anything of the Chinese tradition was obsolete. The typical example is the notion of "complete westernization." A famous political dissident of China, Fang Lizhi, is a strong proponent of this idea. He was very influential among Chinese college students and intellectuals during the 1980s. One incident I remember vividly, that indicated the pro-West mentality, was a discussion

among some reform elites in early 80s. It showed their obsession with the Western ideas and aversion to Chinese tradition. They thought that the traditional Chinese holidays were the constant reminders of old thinking and symbolic barriers to introduce the Western ideas. What they proposed was to give up all traditional Chinese holidays and start to celebrate the West holidays. In their talking, they were so upset by the fact that Japan did so and China did not and would not do that in a foreseeable future.

Mao's effort in this regard may be driven by two concerns. First, it is obvious that any solutions to Chinese problems have to be compatible with local conditions to be effective. But in reality, it is very easy for people to copy others' experiences without the considering actual conditions. Mao insisted that any foreign ideas had to be modified to accommodate Chinese situations, if they had potentials to make positive contributions, or rejected them completely. His effort started at the early stage of Chinese revolution. When other leaders blindly copied the Soviet model of revolution, Mao paid great attention to the Chinese situation and tried to find suitable way to succeed. Second, because of his passionate love to China and the Chinese culture, Mao would never tolerate any attempt that could physically and psychologically put the five-thousand-year Chinese culture at a secondary position in the world. To completely accept foreign ideas implies the submission or surrender to foreign cultures. He took strong actions to set examples for his ideas. During his whole life, Mao fiercely resisted any foreign attempts to impose their ideas on China, both from the West and the Soviet Union. Even at the times when the CCP or the nation was in the very difficult situations, he never gave in to

external pressures. This effort became the main source of tension between China and the two super powers at that time.

Mao pushed very hard to promote the idea that China had to find her own solutions for the future. During the cultural revolution, it reached an extreme by completely denying all foreign experiences. There was a strong social pressure at the time that any positive reactions to foreign, particularly the Western ideas were politically incorrect or even dangerous. Practically, it is not helpful to overlook others' experience. However, as expressed by ancient Chinese wisdom: "Jiaowang GuoZheng (one has to overact in correcting a difficult problem)," such extreme actions did leave marks in people's mind. As a matter of fact, people did find that without being constrained by the heavy historical burden and mesmerized by superior Western ideas, China did find some unique solutions that could help to revive her glory and open a bright future.

Building a nation with self-confidence

Coupled with the effort of educating Chinese people to be future oriented and think autonomously, Mao also tried very hard to build up strong self-confidence among Chinese people, which is a critical condition to act and think independently. It is also an important component of initiative and creativity. The tradition of following the past suppressed the self-confidence of Chinese people within the Chinese culture. They simply surrendered to ancient wisdom and gave up their initiative and creativity. Nonetheless, since the Chinese culture was more advanced than others at most time, people did have strong sense of self-confidence in their interaction with the outside world. Even in the

situation when China was defeated militarily, such confidence could still be maintained because culturally those military conquerors had to accept Chinese tradition. This situation was kept unchanged until the large scale interaction with the modern Western cultures.

The unquestionable defeat of China both militarily and culturally in that process delivered a fatal blow to the self-confidence of Chinese people since it destroyed the sense of superiority over other cultures that Chinese had enjoyed for thousands of years. The Western culture clearly demonstrated in many aspects that it was very adaptive in responding to the demand of fast changing modern society. On the other hand, the static and backward-looking Chinese culture, as an aging giant, found itself lagged far behind in the race of turning China into a modern society. It is not exaggerated that by the turn of the twentieth century, Chinese almost lost their self-confidence completely, particularly among the people of elite groups. A typical example was that few intellectuals would believe that China could ever catch up and surpass the Western nations in the foreseeable future. They just hoped that they could transform themselves to fit the Western culture and enjoy the modern civilization by taking ride on the Western band-wagon. Besides completely submission, a different and less common expression of no self-confidence was to completely withdraw and become self-closure. Those people confined themselves in some cultural islands that were out of the reach of the Western culture and try to enjoy an illusive sense of cultural superiority. Apparently, such mentality would not help to revive the glory of Chinese culture.

Mao's approach to build up self-confidence among Chinese people was to emphasized that people were the determining factor of any outcome. He educated people

that there was no such a thing of impossible, no matter how difficult a situation might be. As long as people make the best effort, anything can happen. This idea is summarized perfectly in one of his famous poem: "There is no difficult work in the world if people would try very hard to conquer the difficulties (Shishang Wu Nashi, Zhiyao Ken Dengpan)" (1965). Mao himself sets a perfect model for other to follow in this regard. In the late 1920s when his army only had few hundred soldiers, in response to someone's doubt about the future of Chinese revolution, he declared in full confidence: "A spark can be turned into a jungle fire" (1930). Mao's effort to build up the nation's self-confidence was substantial and sometimes extreme as well. In addition to extensive education effort, he initiated many actions to have people touch the untouchable and think of the unthinkable. Those actions touched every aspect of people's life in China. The great leap forward movement is a good example. All Chinese were mobilized to take on an impossible task: to modernize the nation overnight. As mentioned many times, the economic consequence of this movement was a disaster. However, its educational effort was profound in both negative and positive terms. The message did come through to everyone that the goal of China was to catch up and surpass the top economic powers in this world. Also people experienced how powerful they were once they acted. If such a power can be channeled properly, a miracle will be made. The great cultural revolution movement was another important event in which educating people to be self-confident was an important agenda. "Chongyan Meiwai (in awe of the Western achievement in technology and culture)" was seriously wrongful thought and action during that period. Many people were criticized and punished because they were named as "Chongyan

Meiwai." Several individuals and organizations were selected as the models to promote self-confidence. For instance, Dazai and Daqing were set as examples how human actions produced positive outcomes under very difficult conditions.

There were also other events that were used to bolster people's self-confidence. For instance, under Mao's leadership, the new China was always stood-up against the strong forces in the world. It was the only nation in the world that fought the two superpowers militarily and did not lose. However, during the peace time, Mao's effort to boost people self-confidence was not as successful as what he had achieved during the war. In CCP's military effort against the enemies, people's confidence was periodically reinforced by the good news from the battle field. Unfortunately, the progress to catch up with the Western economic powerhouses was far from satisfactory under the planned economy. The psychological confidence stimulated by the educational effort was not reinforced strongly enough by the outcome.

Facing the reality, Mao's strategy was to keep the momentum of building self-confidence by utilize every bit of evidence to bolster the claim that China was catching up with the West and downplay the fact that China was still lagging far behind in terms of economical strength. For instance, extensive propaganda effort was made to the completion of every major project in the nation, such as the bridges across the Yangtz River, the launch of satellites, and the test of nuclear weapons. Furthermore, the political pressure to deter any expression of worshipping the West was kept very strong. As result, although the material base was still weak, the psychological buildup of people's self-confidence was fairly strong. People were poor but confident in themselves and optimistic

to the future. Particularly, the slave mentality to foreign powers and ideas was significantly reduced.

Mao's effort to educate Chinese people being future-oriented, thinking autonomously, and acting with a strong sense of self-confidence helped to prepare the psychological conditions for the nation to progress. It was a mind liberation process indeed. The development of rural enterprises demonstrated in many ways that Mao's work did leave traces in people's mind and affect their actions. Collectively, rural people have accomplished what were the unthinkable and impossible by conventional wisdom. In that process, they would not be bothered or intimidated by the fact that what they tried to do was completely beyond peasants' traditional territory. They just kept their dreams for a bright future and acted pragmatically from the reality. When others were indulged in endless debate on whether China could catch up with the West, rural people took actions to move the nation closer to that goal.

Reform the society to disseminate opportunities to the majority

Besides preparing the nation psychologically, another important legacy of Mao is that he made great effort to reform the society so that opportunities were distributed to the majority. The Confucian philosophy emphasizes the status quo in a society because it focuses on maintaining the order and stability. According to the teaching of Confucianism, people should do what is appropriate judged by their positions in the society. There are a few opportunities for upward mobility that are only available to the selected few. For the mass majority of population, they have to satisfy with their positions

and do not expect anything beyond what is ascribed to them. A society built upon this philosophy was clearly against changes therefore a barrier for China to surpass the West. As a change oriented person, Mao would not tolerate the situation.

The Chinese revolution physically dismantled the old social structure that excluded the mass majority from the opportunities of upward mobility. Mao's effort to create an equal society did not stop after the CCP had won the power. Unlike many other rebellion heroes in Chinese history, Mao did not take the call for an equal society just as a mean to mobilize the mass. It is an important feature of his idealistic society. He strove for this dream all his life. Mao initiated many actions in order to prevent any social groups from acquiring privilege in China. He particularly made effort to open opportunity to those who were underprivileged. Those actions included several major shuffles among different social groups that sent the members of most privileged groups, such as government officials and intellectuals, to the bottom of society and brought the most underprivileged groups to the top, such as peasants and workers.

During the cultural revolution, those shuffles were the most comprehensive and extensive. As a matter of fact, a major goal of that movement was to dismantle the privileged bureaucratic group formed during the peace time. In that movement, Mao extended the application of many previous approaches to the extreme. For instance, government officials were required to stay in rural areas regularly for manual labor work in agriculture. Middle or high school graduates in urban areas were sent to countryside to live and work with peasants. It is estimated that about 17 million youths were sent to countryside to receive reeducation by the peasants (Han, 1993). Artists, writers, and

health care professionals had to serve the workers and peasants. The traditional figures of emperor, government officials, ghost, and beautiful women, which had dominated the stages of performing art for centuries disappeared and replaced by those who were at the bottom of social hierarchy. During the cultural revolution, there were only ten shows on Chinese stages and they were all devoted to workers, peasants and soldiers. The opportunities for higher education started to open to workers and peasants unconditionally that led to a phenomenon of "Worker, peasant, and soldier students" in the institutes of higher education. This process went to an extreme near the end of cultural revolution that the entrance exam for higher education was severely criticized as a barrier to prevent peasants and workers from entering colleges.

Because the effort was initiated by Mao, the paramount leader of China who was determined in pursuing his dream, and supported by the very effective party organizations, it touched almost everyone in the society, even those who were among the most privileged, as discussed in Chapter Four. The scale of those shuffles among different social groups was unprecedented in the world history. It also lasted for a long period. As result, the physical and psychological distances between different social groups in Chinese society were significantly reduced through continuous interactions.

An important impact of equal society on economic development is that the opportunities are fairly accessible to everyone, even those who at the bottom of society. If the majority of societal members were excluded from the actions, it would be impossible for a nation's economy to grow rapidly. Mao's effort to create an equal society then can be viewed as structuring the society in an optimal format for economic take-off. The

contemporary Chinese history showed that those goals were too grandiose to be achieved by a small group of elite. The whole nation has to be mobilized. In order to do so, everyone in the nation should have the opportunity to act. Obviously, Mao's effort prepared such a societal condition. If the opportunities to practice entrepreneurial potential were not open to everyone, rural people, who were at the bottom of social hierarchy, would be excluded from the process. Then, it would be impossible for rural enterprises to grow to the present level.

Mao also had an instrumental role in building up the independent and comprehensive industrial base of the nation. His effort in this regard reflected his desire to help China to regain the cultural glory. To achieve this goal, the support of a strong and independent material base is a critical condition. After the painful experience about the interference of foreign interests in China's effort to progress, Mao greatly emphasized the importance of self-reliance and independence in the nation's economic development. Consequently, China acquired an industrial base with respectable strength and could fully serve the interests of the nation. This industrial base assured the material supply to the development of Chinese rural enterprises.

2. The painfully accumulated assets: Mao and Deng

Though beneficial for the long term interest of China, it is true that many of Mao's actions were not popular among those affected, particularly Chinese intellectuals. Nonetheless, to a significant extent, those were painful actions that had to be taken if the whole nation wanted to stand up again in the world. Mao happened to be the person who

had the courage, authority, and time to do so. Actually, many negative consequence of Mao's action turned out to be valuable assets for the nation. For instance, a costly price that China had to pay for stand-up against the super powers was to be isolated from the rest of world. It created tremendous difficult for her economic development. However, judged by the success of rural enterprises, this price is worthy of paying. The isolation situation provided a well protected environment for the development of rural enterprises at its early stage. If rural enterprises had to compete with foreign companies that were much more sophisticated in the market and better equipped and financed, the chance to success would be grim.

Another pain to Chinese is that Mao was idealistic not only on spiritual issues but also on the practical approaches to achieve spiritual goals. This character created an non-solvable dilemma. He tried so hard to educate people to be self-reliance, self-confident, change-minded, pragmatic, and aiming at highest standard. People with those characteristics would inevitably act entrepreneurially or individualistically. Nonetheless, the idealistic path Mao chose for people was very collectively oriented. Also people were rewarded psychologically rather than materially. Those approaches were not compatible with the requirements of releasing the n Ach energy that he helped to build up. The incompatibility between what people wanted to do and what they could in the given environment created enormous tensions. A frequently cited mistake by the Party itself was "hurting the enthusiasm of the mass." This was an inevitable consequence because on one hand, Mao worked very hard to continuously build up n Ach energy in the mass. At the meantime, he also made great effort, though not intentionally, to block the proper

channels for releasing the energy. This was a painful experience for many people. However, once the societal conditions change and the opportunities are available for people to act in a way compatible with their desires, this huge build-up of n Ach energy can be a precious asset of a nation. That is what happened in the development of Chinese rural enterprises.

Mao's legacy even includes his action at the final moment of his life. He appointed a moderate rather than an extreme leftist as the leader of the nation, the Party Chairman Hua Guofeng. The nation could easily slip into a disaster if the leftists had the control of power. This action provided the reform-minded group, in which Deng Xiaopin was the key figure, with the opportunity to enter the power center in a peaceful way in the late 1970s. The reform process was started shortly after Deng controlled the power. As discussed previously, it was the triggering event for the rapid development of rural enterprises.

Many people attributed the achievement of Chinese reform to Deng Xiaoping and blamed Mao Zedong for the past of China. This is a narrow-minded view of history. The truth is that Mao prepared Chinese people and society to act and Deng allowed Chinese people the opportunities to act. Or put in a simple way, Mao finished all hard work and Deng organized the harvest. As Henry Kissinger correctly pointed out: "Deng undoing but also building on Mao's legacy. Mao destroyed traditional China and cleared the way for its ultimate modernization. " (Newsweek, March 3, 1997; 42). Looking back to the history, it was very fortunate for China that Deng did not destroy Mao's legacy like what happened in Soviet Union. If that happened, the costly price paid by the whole nation in

reforming China both culturally and socially would be completely wasted. Then China will suffer painfully one more time and very likely lose the opportunity to be strong again. Instead, Deng helped to create a favorable environment to fully utilized the potential of Mao's legacy. In my view, his key contribution was to solve the dilemma of inspiring people on one hand and restricting their actions on the other hand by letting them chooses the course of action. Consequently, the psychological energy of Chinese people, which was accumulated in a long period of time, was released in a very constructive way and the nation benefited greatly. His pragmatic attitude paved the way for China to walk into a prosperous future. Although Deng himself suffered tremendously from many of Mao's actions, while dealing with the future of China, he was able to put his personal pain aside and rationally choose what was the best for the nation. That made him great.

3. The pragmatic side of the CCP and its permissive attitude toward rural enterprises

Though the initiative of Chinese rural people and local governments were critical to the development of rural enterprises, it is by no means that the CCP and Chinese central government only had trivial impacts in the process. Reality was that the permissive attitude adopted by the central government toward this phenomenon (discussed in Chapter Four) was a critical precondition of development, given that it enjoyed strong power to determine any change in the society. Obviously, this phenomenon could not flourish if the central government would not take actions to protect the development. In analyzing the cause of permissive attitude of the CCP, it is

necessary to point out that it was not by accident that the Party changed its policy priority after the economic reform. To some extent, the massive industrial development in China rural areas could be viewed as the continuity of the Party's rural tradition formed during the revolutionary war.

From a historical perspective, people can notice a patterns that the CCP shifted its focus from urban centers to rural areas during both the war and peace periods. Although the CCP was founded on the ideology of communism, it was a very pragmatic organization under its two most prominent leaders, Mao Zedong during the war time and Deng Xiaoping during the peace time. At those times, its actions were rarely guided by dogmas. The outcomes were the primary concerns in determining the course of actions. The emphasis on the importance of rural areas in achieving the expected outcome was shared by these two leaders when they predominantly focused on practical rather than ideological issues. In the former case, rural bases were established to support Chinese revolution. In the latter case, the growth of rural economy through rural reform supported the modernization of China. At the early stage of the revolutionary war, Mao and a few other leaders understood the conditions of China and recognized that rural areas were instrumental to the success of revolution. However, those who were in charge at that time focused exclusively on urban centers. After the urban-centered strategy failed completely and caused severe damage to the CCP, it finally gave way to the rural-based strategy in which Mao played a key role. That strategy is regarded as a key for the success of Chinese revolution.

The similar process repeated in the peace time as well. After the CCP took over the political power and started its economic development effort, all existing examples of successful industrialization were urban-centered approaches. In the Soviet Union, this approach was pushed to the extreme by overwhelmingly focusing on the development of heavy industry. As a socialist country, it was natural that China would follow the Soviet model. Although various changes were made to adapt to Chinese conditions, the urban-centered approach and the strategy of planning from the top dominated the nation's economy. All other approaches were pushed to secondary positions. To be fair, this approach did help China to achieve a respectable growth rate and establish a comprehensive industrial base before the economic reform in 1978. Nonetheless, the growth rate under this system was far from satisfaction, judged by the Party's goal of surpassing the West. There were also many signs in later 70s that this approach was about to exhaust its potential to grow the economy. While the government officials and scholars were searching for the ways of fast development, rural people used their own actions to provide the best answer, developing rural enterprises. The success in this sector of economy shifted China's focus to rural areas again.

In brief, several factors contributed to the permissive attitude of Chinese government toward rural enterprises. The first, and the most important factor is the same as what caused the rural based strategy to take the center stage during the war time. That is, the existing practices were incapable of attaining the intended goals, which were to win the control of China during the war time and to revive the glory of Chinese culture in the world during the peace time. As just mentioned, the CCP under Mao during the war

time and under Deng during the peace time was a very pragmatic organization. Its strategies mainly focused on outcomes rather than ideology. Since Chinese rural enterprises showed its great potential of outperforming other sectors of the nation's economy, it is very natural that the government would not suppress the development. "Black cats, white cats, they are all good cats as long as they catch rats." Deng's famous quotation is the best footnote in this regard.

Second, the development of rural enterprises has no significant conflict with the existing ideological tradition of the Party. For instance, the union between workers and peasants is regarded as one of the three major foundations of Chinese revolution (the other two are the united front-line of all sympathetic forces and military actions to take over the power). Peasants' collective actions would be naturally viewed as supportive to the Party. Also this phenomenon is in consistent with the two of three great tasks that Mao assigned to the Party, "to eliminated the differences between agricultural and industry, urban and rural, and intellectual and manual labor work." Now that rural people started to achieve these goals by themselves, it should be celebrated rather than to suppress the development. Furthermore, an important Party line is to "organize mass, mobilize mass, and depend on mass to achieve the Party's goals." As the largest mass of the nation, rural people's actions should be allowed as long as they help to achieve the Party's goals, and in fact they do. There were many other ideological concerns that were compatible with the development of rural enterprises. They cannot be fully discussed here since that is not the topic of current study.

Finally, the CCP's rural root makes the development of rural enterprises an emotionally acceptable phenomenon. Its permissive attitude can be viewed as the regression to its rural root. Rural non-agricultural production is not an alien concept to the CCP at all. To support its war effort during the revolutionary period, non-agricultural production in the rural bases was always an important Party agenda. As discussed in Chapter Two, the practice to promote rural non-agricultural production can be traced back as early as the central revolutionary base period in 1930s. During the periods of anti-Japanese war and liberation war, non-agricultural production became a common phenomenon in the rural bases. The famous "great production movement" in Shan-Gan-Ning base in early 1940s is a good example. When rural enterprises showed rapid development in early 1980s, it was naturally analogous to the "great production movement."

Nonetheless, there is a significant difference between the first and second shift from urban centered to rural based strategy. During the second shift, Chinese rural people rather than individual leaders took the lead. Because of this difference, the permissive attitude of the CCP became very critical. It is a blessing to China that the development of rural enterprises did not encounter serious political challenge, though some resistance did exist. Besides the support of Deng Xiaoping, a strong coalition at the power center also helped to protect rural enterprises. People should not underestimate the importance of this permissive attitude or mistakenly think it as the evidence that Chinese government was losing control. It was the most important environmental condition for the development of rural enterprises. If the CCP would not allow the space of development, there would be

no chance for rural enterprises, no matter how hard and how smart rural people would try. There are just too many incidents in which the CCP demonstrated its capability to control situations. When conducting my field study, I was amazed by the extremely strong and effective influence of local Party organizations. It would be naive to think Chinese rural enterprises as a result that the CCP lost its control in rural areas (see Zhou, 1992).

In brief, the permissive attitude of the CCP toward rural enterprises is largely due to its pragmatic concern for economic development and its previous experiences. Although the CCP did not take initiative, it refrained from counter actions and allowed Chinese rural people to fully express their initiative in developing rural non-agricultural production.

4. Inter-regional discrepancy and the role of local government

The significant inter-regional discrepancy is a distinctive feature that characterizes the development of Chinese rural enterprises. As discussed in Chapter One, among the three economic regions designated by the central government, the Eastern region, which mainly covers the coastal provinces, is much more advanced on many business indicators, compared with the Central and West regions, which mainly consist of inland provinces (see Table 1.4). This phenomenon can be attributed to many factors. For instance, in popular opinions, the geographical location has significant impacts on many business conditions, such as the distance of transportation, closeness to major industrial and commercial centers, access to markets, quality labor force, technical support, and information. The general trend is that the distance from sea is negatively associated with

the level of development in a region. The farther from the seas, the less advanced a region would be.

The three localities investigated, Jinjiang City, Wujiang City, and Tongliang-Dazu Counties, contrasted sharply with each other, judged by the level of development and business conditions. Jinjiang and Wujiang were highly developed areas while Tongliang-Dazu lagged far behind. For instance, in terms of data I collected, Tongliang's industrial output of rural enterprises was only 1/20 of either Jinjiang or Wujiang in 1994. Dazu County was in the same situation. Those three places all differed significantly in many aspects in terms of business conditions. For instance, Tongliang and Dazu are located in mountain areas at the heart of China and far away from major industrial centers. The transportation conditions were very difficult because of their geographic locations. Jinjiang's situation is better than Tongliang and Dazu. It is on the shoreline of Eastern Chinese Sea. Wujiang City has the best geographic location among the three places. It is in the most advanced area in China, the Yangtz Delta area. Shanghai City, the largest industrial and commercial center of China, is Wujiang's direct neighbor. Other major industrial and commercial cities are also in short distance. Obviously, those difference would have significant impact on the business activities.

While admitting the validity of many frequently cited explanations on the inter-regional discrepancy, both the qualitative and quantitative evidence collected in this study strongly suggests that the policies and actions of local governments be critical factors. They accounted for a significant portion of variance in the inter-regional difference of development.

The impact of local government policies.

As the previous discussion showed, the policy adjustment of central government created a permissive political, social, and economic environment for entrepreneurial development at a macro level. Nonetheless, a local government had significant power to affect the business conditions within its jurisdiction. In some areas, local governments took initiative to test the limit of tolerance by the central government policies and make more radical changes to create a mini business environment that was more favorable and liberal than the macro conditions. In doing so, the actions of those local governments frequently stepped outside the boundary set by the central government. Consequently, their actions frequently caused tension between the local and higher level authorities. There was also evidence that in other areas, the local governments lacked of enthusiasm even to respond to the changes made by the central government. Their attitudes were even more conservative than that of the central government. Thus, within the jurisdiction of those local governments, the business environments were less permissive to entrepreneurial activities, compared with the average condition of the whole nation. The general rule is that, if a local government has a strong desire of reform, then it would promote and nurture favorable conditions. The development in the local community can be strong, given that other conditions affecting entrepreneurial performance are equal. Otherwise, the development can be slow or even in stagnation.

Jinjiang government was the most liberal in creating a favorable business environment in the local communities. It was a typical example that the actions of local

government frequently stepped outside the boundary set by the central government. As described by the local officials, they were always one step ahead of the central government. In 1980, responding to the initiative of grass-root people, the Jinjiang government issued major policy changes to allow private business ((Liu & Wei, 1992). Then in 1981, it gave further permissions on several key requirements of developing private business, such as dividend for stockholder, hiring worker, and commission for sales people (Chen, 1992). As reviewed in Chapter Two, in 1984, four years after the initiative of Jinjiang government, the central government publicly showed permissive attitude towards private businesses by issuing the document "Several Decision on Promoting Rural Enterprises." Compared to that of the Jinjiang government, however, the attitude of the central government was still very conservative. For instance, it only allowed a private business to hire eight employees. By contrast, there was no limit of how many workers a private business could hire in Jinjiang City (Luo, 1994). Those policy changes were critical for the fast growth of rural enterprises in Jinjiang City. People have to remember that the actions taken by the Jinjiang government were politically very risky but the history proved the worth of their brave actions.

The situation in Tongliang County was a different story. About a half year before my field trip to Tongliang County, in the summer of 1994, the local government held an important meeting to discuss policy issues for promoting local economy. As the results of that meeting, several key policies for promoting rural enterprises were initiated. The cores of those policies were "four no restrictions (Sige Bushou Xiangzhi)." It states that the local government would not impose any restriction on type, level, size, and growth rate of

business (Document No. 25, 1994 by Tongliang CCP Committee). Though sounds a little awkward because there should not be restriction on any of those four issues, it was consistent with a general trend in the economic reform that the policy adjustment by governments at various levels was primarily to remove the previously imposed restrictions on rural enterprises. By following this trend, Tongliang government showed that it would adopt a more liberal attitude toward rural enterprises. The mentality of "no restriction" was naturally extended to other relevant issues. For instance, there used to be lengthy procedure to get permission from the government to start a new business. Under the new policy, new business were allowed to start operation while completing all the licensing requirements. Those policy changes were particularly beneficial to private enterprises. I interviewed several private entrepreneurs in Tongliang. They all agreed that it was much easier and more convenient to conduct business after that meeting. Though the policy changes by the Tongliang government immediately showed positive impact on local businesses, they came too late. It was 14 years behind the initiative of Jinjiang Government and even ten years behind the policy adjustment of the central government.

The impacts of local government policies on the rural enterprises of Wujiang City needs to be analyzed from a broader perspective. Sunan Model, in which Wujiang City belonged, includes more than ten cities or counties. The development of rural enterprises in those places benefited from the policy initiative of provincial, prefecture, and city governments. As discussed previously, collective ownership was the dominant form in this area. It was different from the situation of Jinjiang Model in which the companies were almost exclusively private ownership. Thus, in terms of ownership issue, the local

governments in Jiangnan Model were at a less politically risky position to promote rural enterprises. This was a main reason that the Jiangsu provincial governments could actively support rural enterprises as early as 1977 (Yu & Huang, 1992). Nationwide, the Jiangsu Province was the pioneer in developing rural enterprises. When the central government and other provinces were still suspicious about the legitimacy of rural enterprises in the nation's economy, the Jiangsu governments at various levels took initiative to promote the business. Though promoting collective economy was not politically incorrect actions, strong resistance did exist. The conflict was primarily between a planned economy and a market economy (Yu & Huang, 1992). At the late 1970s, the planned economy was still dominant in policy making. Consequently, as mainly developed under the market mechanism, the operation of rural enterprises would cause conflict with the state planning in many aspects. Then what the local governments did were to protect the local rural enterprises from taking various market-driven business practices. This was most evident in obtaining supply and marketing products. Because the legitimate channels of state planning were closed to rural enterprises, to obtain supply and sell products, they had to go through channels that were illegitimate in a planned economy, for instance, using own products to exchanging materials covered by the state planning and marketing products beyond the local boundary. At that time, the restriction of "three locals (production, resource, and market)" were still endorsed by the central government. Without the protection of local government, it would be very difficult for companies to do so. In the areas of Sunan Model, the local governments not only permitted market-driven business practices, they also actively helped rural enterprises to



obtain resources through non-planning channels. As discussed in Chapter Four, the local governments would negotiate with the government agencies in other resource rich areas to obtain supply for local business. Between 1983-1985, Suzhou government helped the local businesses to get six million tons of coal, six hundred thousand cubic meters of lumber, four hundred thousand tons of steel, and large quantity of iron and cement (Tao, 1988). Those materials were all covered by state planning and not available to rural enterprises through legitimate channels.

The difference in the actions of local officials.

In Wujiang and Tongliang-Dazu, collective rural enterprises were dominant. It means that local governments need to actively involve in the business operation. For instance, the local governments have the power to appoint the top management team of a collective company, determine their compensation package, and check companies' bookkeeping records. However, Wujiang and Tongliang-Dazu governments demonstrated noticeably different styles in working with local enterprises. In general, Wujiang governments were very entrepreneurially oriented. They facilitated rather than interfered with business operation. The operational decisions were usually left to the management team of individual enterprises. Top managers enjoyed sufficient freedom in making business decisions. For instance, I frequently heard that local officials complained that they knew too little about what a company was doing. More important, local governments would share the entrepreneurial risk with companies and help companies to solve many practical problems, such as obtaining capital, raw materials, labor force, and marketing

products. In Wanping Township, the general manager of sewing machine company told me that the local officials were very supportive to his work. They encouraged him to take brave actions, would take responsibility for failure, and credited him for success.

By contrast, Tongliang-Dazu officials acted more bureaucratically in dealing with rural enterprises. They viewed managers of rural enterprises more like their subordinates rather than entrepreneurs who need freedom and independence to make business decisions. Several managers I interviewed complained that the government officials interfered too much. In many cases, the purposes of their actions were primarily to show that they were in control. For instance, the local officials would determine whether a manager could make a business trip. If the manager took the trip without permission, then the travel expense would not be reimbursed. An example cited in Chapter Six also showed that the actions of local officials in Tongliang were often driven by their political interests rather than promoting business. The director of a cement mill, which was a star company in Tongliang, would not expand his business through diversification. Because whenever he tried to set up a new business, the local officials would take it away and made it an independent company. They did so is because the number of rural enterprises within their jurisdiction was an important indicator to evaluate their performance. Therefore, for politically looking good, they would sacrifice the business future of a star company.

The impact of difference in local government actions can be observed within a locality as well. A story I learned during my trip in Jinjiang City is about the history of its three garment markets. At early 80's, there were three garment markets in Qinyang,

Anhai, and Shishi Townships. At that time, people mainly used smuggled materials to produce clothes. Several entrepreneurs I interviewed vividly described the situation of smuggling cloth materials. Because this phenomenon was so rampant, the government initiated the anti-smuggling campaign. The three township governments acted very differently in that campaign. The Qinyang and Anhai governments strictly follow the direction of higher level authority and closed down the shops trading smuggling goods. Some officials involved told me that they would even search people's homes to confiscate smuggled materials. Under heavy attack, the Qinyang and Anhai markets soon lost momentum. But in Shishi, the government was fairly passive to enforce the campaign because it did not want to hurt the town economy. Then its market flourished and became very famous nationwide as a garment trading center. The opportunities generated by the market stimulated the growth of garment industry in Shishi and Its economy flourished. In talking about this history, some Anhai officials thought that their actions were really stupid because it destroyed their own market and lost the opportunity to develop their garment industry. The purpose to present this example here is to show how the difference in government actions produced different outcome in local economies. It is not intended to doubt the correctness of stopping smuggle activities.

As a measure to narrow the development gap between the coastal areas and the inland areas, the central government adopted a strategy of exchanging officials across regions. The officials from more advanced areas were assigned to work in the less developed areas to help the development of local economy. Officials from the less developed areas were also assigned to work in the advanced areas for a given period to

learn the experiences. I personally met an official from Wan County of Sichuan Province who was on a one-year learning assignment to Jinjiang City. The exchange process was the opportunities to expose the differences in local government actions. In Baisu Township of Wujiang City, I learned a story about a Baisu official assigned to help an inland poor county. He was very enthusiastic about his assignment. In one case, he worked very hard and successfully got a very generous loan to start a business. If this happened in Wujiang City, he would be highly appraised by his superior. Ironically, the top official of that county was very unhappy because the Baisu official did not get his permission to do so, even though the actions were good for the county and compatible with the assignment of Baisu official. At the end, the project had to be abandoned. The Baishu officials who told me the story laughed at the action of local officials in that poor county. They felt very difficult to understand the logic of action. They also thought it was ridiculous that one needed permission to help the local economy.

As mentioned in Chapter Six, the sewing machine factory in Wanping Township of Wujiang City was a joint-venture between the local government and a state enterprise. From various sources (city officials, township officials, and people of that company), I learned that the township government actively helped the company to solve many practical problems in business operation. For instance, to speed up its growth, the town government arranged other companies to serve as its parts suppliers. This approach significantly increased its production capacity. The town government also helped the company to market its products, to obtain supplies, and to prevent it from being harassed by local people. Interestingly, I learned that the state enterprise also had a joint-venture

company in an inland county. The situation of that company was miserable. It was squeezed very hard by the local officials for money and other contributions. They even mobilized village people to block the entrance if the company did not meet their demands. When having practical problems, that company could not get help from the local government. Wanping officials felt very difficult to understand the officials' behavior of that inland county. They said they would try very hard to protect their companies free of harassment and treat them as crown jewelry. Their rationale was that as long as a company grew, it would help the town economy and benefit everyone. The success of sewing machine company contributed significantly to the economy of Wanping, which used to be a very poor township in Wujiang. Now it became a star township for its fast growth rate. Wanping officials looked down on the officials of that inland county because their actions were destroying the economic future of their own county.

Besides the evidence provided by others, my personal experience during the field study showed that local officials in more advanced areas were more supportive to rural entrepreneurs. Also the officials in the less advanced areas usually had stronger administrative power over entrepreneurs. They could demand rural entrepreneurs to comply with their agenda whereas the officials in more advanced areas were less capable of doing so. As a mean of data collection and a way of making personal contribution to rural enterprises, the author gave a series of seminars on management science to rural entrepreneurs in five places: Jinjiang City, Wujiang City, Tongliang County, Dazu County, and Yueyang City. The last three places were much less advanced than Wujiang

and Jinjiang in terms of rural enterprise development. Those seminars were organized by the local governments as I requested. My initial proposal was to offer free seminars to rural entrepreneurs. To my surprise, the local officials in Tongliang, Dazu, and Yueyang charged each attendant between 700 and 800 yuans (roughly 100 U.S. dollars). This was a substantial amount of money at that time. I noticed that many attendants were reluctant to do so but they had no choice. On the other hand, the seminars in Jinjiang and Wujiang were offered for free, as I wished. In addition, the local government prepared good meals to entertain the attendants. Furthermore, I could tell that if Wujiang and Jinjiang officials wanted to charged money, few would come to the seminars.

People might argue that because the local officials in less advanced areas were poorer so that they would try any means to get money. Nonetheless, this argument cannot be an excuse for taking advantages of rural entrepreneurs using administrative power. At the early stage of development, Jinjiang City was a much poorer place than Tongliang, Dazu, and Yueyang. The local economy was operated in red for many years whereas the other three places usually enjoyed surplus. One local official told me that the then director of Rural Enterprise Bureau decided to waive the management fee that companies required by the central government policy to pay the bureau. This fee would be retained by the bureau to support its operation and used for the welfare of its employees. His rationale was to leave more capital for companies to develop business. Thus, his action sacrificed the personal interests of government officials to support rural enterprises. These examples show that officials in less advanced area were less supportive to rural enterprises.

The last example to be presented may help people to understand the different attitudes toward rural enterprises by local officials from a unique perspective. Jinjiang City is the hometown for many overseas Chinese. Local people would like to say that there are three "Jinjiangs." One is in mainland China. Another in Taiwan. And the third "Jinjiang" consists of Jinjiang origin people in other countries. Each "Jinjiang" has about one million people. Those overseas Chinese have strong emotional bounds with their hometown and would make contribution for Jinjiang's development. One important area for overseas contribution is education. Almost all Jinjiang schools receive some overseas donations, more or less. The total amount of overseas contribution values at about 80 million yuans between 1949-1987 (Liu & Wei, 1994). The local government highly values and encourages those contributions. Tongliang is located at the heartland of China and not many overseas Chinese has local ties. But some Tongliang origin people also wanted to contribute to their hometown. The mother-in-law of the author used to be the principle of Tongliang High School, an excellent school in Sichuan Province. She told me a story that was very interesting. In 1988, a Tongliang origin person who now lived in Taiwan would donate \$20,000.00 to the school. He also promised to have other Tongliang origin people now lived in Taiwan to join his effort in the future. This should be a wonderful news for the school. Surprisingly, the county government would not allow the school to accept the donation. The official explanation was that the government policy prohibited a public school to accept private money. The unspoken reason, as my mother-in-law put it, was that some local officials were jealous about the huge amount of money

the school would receive. Thus, the school had to turn down the donation. That Tongliang origin person was very sad and could not understand why.

A theme can be identified from those different actions of local officials. Basically, in less advanced areas, there was a climate that the local officials were more concerned about enjoying their administrative power over other people. Whether their actions would help or hurt the welfare of local communities seemed to be less a concern. On the other hand, in more advanced areas, the officials' minds were more directed toward how to promote the development of local communities. In doing so, they would often refrain themselves from using administrative power to intervene in the business operation of rural enterprises. More importantly, they would take actions to protect and help local companies. As the Mayor of Wujiang City put it, their requirements for local officials were to promote the economy within their jurisdictions during their tenure (Weiguan Yiren, Zhifu Yifang). Another observation about the impact of local government is that the local Party secretary was the most critical person. His/her attitude and policy orientation significantly affected the developmental potentials in that area. If a Party secretary is supportive to the development, the local business environment would be favorable for entrepreneurial activities and the local economy would grow fast.

The qualitative findings that the local officials in less advanced area were not very supportive to the development of rural enterprises in the local communities are also supported by quantitative data. Among the three survey sites, the Tongliang and Dazu entrepreneurs rated their governments significantly lower than Jinjiang and Wujiang entrepreneurs did on the measure of local governments support to rural enterprises (See

Table 8.13). On the other hand, Wujiang government was rated as the most helpful. This result is understandable because Wujiang rural enterprises were primarily collective ownership. Therefore, the local government was actively involved in the business operation. The previous discussion showed that the involvement was generally positive. On the other hand, the Jinjiang companies were almost exclusively private ownership. Though the local government was very supportive, it could not directly involve in the business activities. Thus, its distance to individual companies was greater than that of Wujiang government. Consequently, the perception of Wujiang entrepreneurs on their local government would be more favorable than that of their Jinjiang counterpart. Furthermore, the correlational analysis in Chapter Eight showed that the measure of local government support only had predictive power of entrepreneurial performance in the Tongliang-Dazu sample. In Jinjiang and Wujiang samples, this measure did not predict entrepreneurial performance. A plausible explanation of this finding was that Jinjiang and Wujiang governments helped rural enterprises without discretion. The favorite local business environment created by the local government policy could be enjoyed by every individual company. Since the government support was equally accessible to every business, it would not differentiate the performance of individual companies. On the contrary, the local business environments in Tongliang and Dazu were less favorable because the local governments were less supportive to rural enterprises. Under such a condition, companies that were able to court for special treatment by local government enjoyed privileges in business operation and therefore might be more successful. Thus, the support of local government became predictive of entrepreneurial performance.

Basically, the data suggested that the action of local government was a critical factor accounting for the inter-regional difference in the development of rural enterprises, though many other factors contributed to this phenomenon as well, such as geographic location, transportation conditions, and closeness to major industrial and commercial centers. More important, the action of local government is relatively easier to be changed than other conditions do. It suggests a practical approach to promote the economy in a less developed area: to find and appoint competent government officials or to help the incumbent officials to change behavior in a direction of promoting a favorable local business environment.

5. A test of "Achieving society"

The investigation about n Ach, entrepreneurial activities, and the development of Chinese rural enterprises relies heavily on several key propositions in "Achieving Society" by David McClelland (1961). Thus, to some extent, the present study can be viewed as a test of those propositions. This section summarizes the test results. Four propositions have been applied in analysis. First, people with higher n Ach tend to be attracted by the opportunities for entrepreneurial activities. Also they are more likely to be successful as entrepreneurs. Second, the level of collective n Ach in a society has a positive impact on the growth of its economy. Third, prior to the rise of a civilization or economic take-off in a society, there is a period of psychologically building up for n Ach energy. That is, a high level of collective n Ach should precede economic growth. Fourth, in a society where the opportunities for entrepreneurial activities are blocked, those with



higher n Ach tend to take other vocational choices considered as the way of excelling in that society.

The first proposition is based on the analysis of entrepreneurial role requirements and the characteristics of achievement incentives. As presented in Chapter Three and Six, for an entrepreneur to be successful in business, one should be intrinsically driven to strive for surpassing some measurable standard of excellence, to be innovative, to monitor and improve own performance, and to take calculated entrepreneurial risk to maximize benefit and minimize cost. Those requirements correspond with what characterize achievement incentives that are attractive to people with higher n Ach. Thus, it is assumed that if opportunities are available, people with higher n Ach tend to be entrepreneurs and are more likely to perform better as entrepreneurs. The qualitative data shows that the difference in behavior between entrepreneurs and non-entrepreneurs suggests the former have higher n Ach than the latter do. In a village, those who became rural entrepreneurs often would not satisfy with the conditions of their lives and had tried many options to improve. They tended to be more restless than their fellow villagers. Also outstanding rural entrepreneurs were more likely to demonstrate behavior that were relevant for the attainment of achievement incentives. The proposition that people with higher n Ach tend to be better entrepreneurs is supported by the quantitative data as well. These findings are held across different areas in China.

The second proposition can be viewed as a logical derivation of the first proposition. Since the first is true, it is reasonable to assume that the level of collective n Ach in a society should have a positive impact on the growth of its economy. If a society

has a higher collective level of n Ach, then the proportion of people with higher n Ach should be greater. Thus more people would be attracted to entrepreneurial activities and also perform better as entrepreneurs. Consequently, the economy will grow faster. As discussed previously, the traditional value of Chinese culture tends to foster higher level of n Ach in the society. The practice of Chinese Communist Party further enhanced this trend. Through content analyzing the achievement imageries in children's stories, McClelland also reached a conclusion that the Chinese society had a higher collective n Ach (1963). In this study, the second proposition is supported by the facts that once the opportunities were available, there were so many people engaged in entrepreneurial activities and collectively they were very successful.

A natural question to ask at this point is that where the higher collective n Ach comes from. The third proposition addresses this issue. In his book, McClelland presented the evidence that prior to the rise of all major Western cultures, there was a period in which collective n Ach energy was building up in a society. The level of collective n Ach is higher in a society at the eve of economic growth. The cases he listed included Ancient Greece, Spain in the late middle ages, the Protestant reform and the rise of capitalism, and the contemporary United States. Through content analysis of popular readings in each society during different time period, the results showed that n Ach score reached the peak prior to economic takeoff.

Without making a direct assertion, the data also suggested that a group of elite in each society were making effort to educate people to be achievement oriented and preparing the society for take-off. In China, the Spring-Autumn period and Warring

States period (770 B.C.-221 B.C.) were times when the reform-minded intellectuals and politicians proposed a variety of innovative thoughts for building a better society. The core of traditional Chinese culture was formed during that period. After that, China enjoyed two thousand years of the most advanced culture in the world. In the West, the Renaissance movement helped people to remove the psychological barriers for improvement. Then the West enjoyed several hundred years' prosperity of industrialization. In Japan, the Meiji reform is considered as the key action that opened the door of modernization.

For the contemporary China, the process of mind liberation is long and painful. Understandably, the task to reform a mind set that had remained the same for two thousand years could not be easy. The process started right after China was convincingly defeated by the then superior Western culture. A small group of elite tried to find out what went wrong and how to correct the situation. This process reached its peak during Mao's time. Under Mao, the mind liberation effort revolved to an unprecedented scale in the world history. Every one in the society was significantly affected. As the previous analysis showed, Mao's effort was heavily focused on achievement related issues. Achievement imageries permeated every corner of the society. McClelland also noticed this phenomenon by analyzing children's story and reached a conclusion that the effort by the CCP would lead to rapid economic growth in the future (1963). This prediction was proved valid by the success of Chinese economy today.

The fourth proposition states that in a society where the opportunity for entrepreneurial activities are blocked, people with higher n Ach tend to choose other

career options which are considered as excelling in that society. The traditional Chinese society was an achievement oriented but aversive to entrepreneurial activities. Many formal and informal barriers prevented or discouraged people from entering entrepreneurial occupations. Consequently, those with higher n Ach would choose the only path to excel, to become a government official and an intellectual that served the government. The situation was similar before the Chinese economic reform started in 1978. As a society that was heavily achievement oriented but strongly averse to entrepreneurial activities, the only choice to excel was the same to that of the ancient China, to be a government official or an intellectual serving the government.

Even after the economic reform when the whole society was immersed in the entrepreneurial mentality, there was still evidence showing that if the business environment was not favorable in a particular region, people tended to choose government officials rather than entrepreneurs as their career options. Among the localities I visited during my field study, Tongliang County, Dazu County, and Yueyang City had less favorable business environments for entrepreneurial activities due to the policies of local government. In these areas, many entrepreneurs expressed desires of becoming government officials. For some former entrepreneurs but now government officials, people would think them as better off. By contrast, in Wujiang City and Jinjiang City, no entrepreneur wanted to be government official. In Wujiang City, there were several cases that the local governments assigned some entrepreneurs to official posts. Those people felt very upset about the change. Other people would think that they suffered loss.

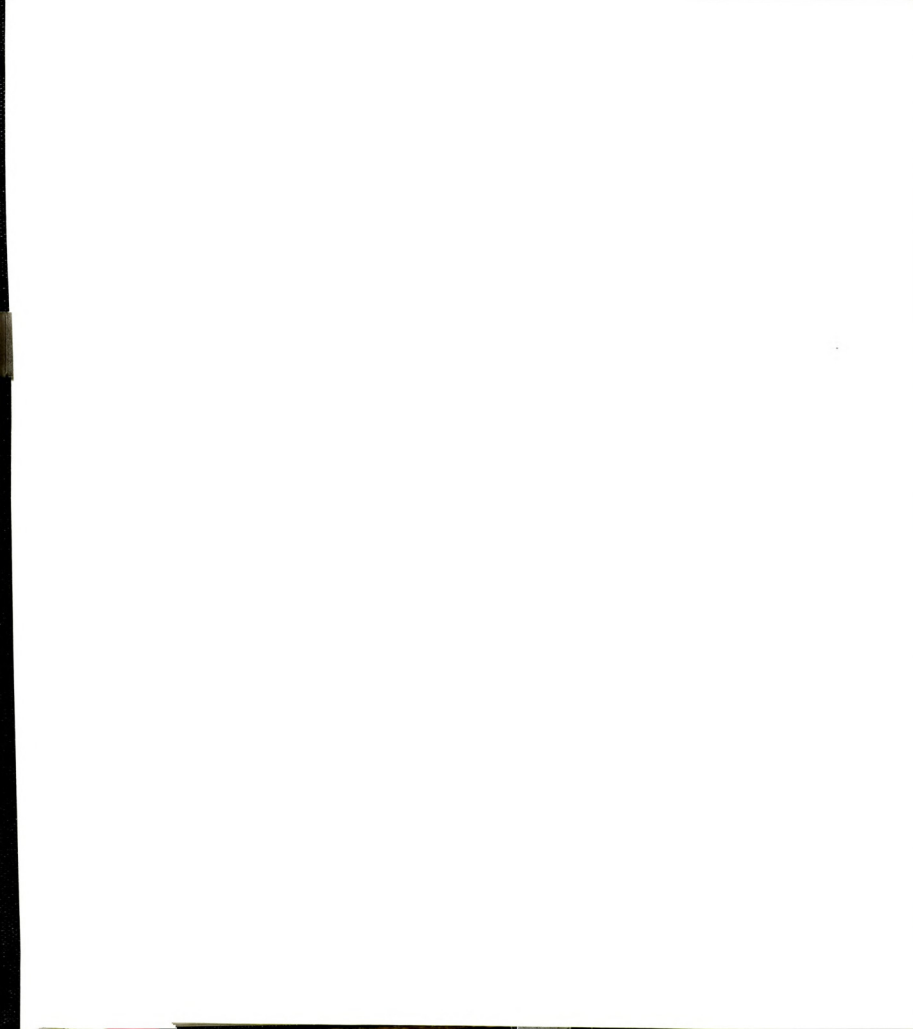


"Achieving Society" has been published for more than thirty years. Many of its propositions significantly affect people's thinking of social and economic development. The success of Chinese rural enterprises provides a living example to test its major propositions since this is a phenomenon of rapid economic growth associated with a large scale entrepreneurial activities in a society. Both qualitative and quantitative evidence collected in this study support the validity of those propositions in explaining the development of Chinese rural enterprises.

6. Summary

One purpose of this chapter is to further explore the causes of societal conditions that had critical impacts on the development of Chinese rural enterprises. It is evident that many conditions discussed in the previous chapters were the consequences of intentional intervention by human forces in the society, such as the rural-urban dualism structure and the egalitarian nature of Chinese society. For following the natural rule of development, as what happened in many other countries, rural people would move to urban areas to search for opportunities rather than stay in rural areas to develop non-agricultural production. Also inequality is a rule rather than an exception of social development.

Because China is the most populous nation in the world and a country with more than five thousand years of civilization, the attempt to shape the Chinese society into a particular form no doubt requires a very powerful force that is able to align the action of majority people in the society. In the contemporary Chinese history, Mao Zedong was the only person who had the power to meet the challenge. The discussion in this chapter



showed that Mao's ideas and actions were instrumental in forming many conditions of Chinese society which were critical for the fast development after the economic reform started, including the development of rural enterprises. Basically, what Mao did with Chinese society was to instill a future orientation, nurture a practical emphasis, build strong self-confidence, enhance the energy of Chinese people, create an equalized social structure, and establish a comprehensive industrial base. Although those conditions were formed at the painful cost of Chinese people, they were necessary to reform China fundamentally and move the country into a new era of civilization.

Deng Xiaoping was another influential figure and generally credited as the mastermind of the Chinese reform. Nonetheless, his contribution to China was based on what Mao had established. After he entered the power center, the approach he took to revive China allowed full utilization of Mao's legacy for the benefit of the country rather than to sever the links with past and make 180 degree changes, as what happened in the reform of the Soviet Union. This proved to be critical for the success of Chinese reform.

Mao's legacy also affected the policy orientation and actions of CCP and Chinese government in the reform process. This chapter lists several causes for the shift of the Party's policy priority and a series of adjustment in economic policy which include the Party's rural root, its pragmatic orientation in dealing with difficult situations, and its emphasis on the role of mass rather than a handful of elite in solving practical problems. As discussed Chapter Two, those causes were all part of CCP tradition formed under Mao's leadership and reflected the influence of Mao's belief and approaches. Such a tradition is a valuable asset for the Party because it assured that changes made by the

government are emotionally and ideologically compatible with rather than alien to its past experience. As repeatedly emphasized in this study, the Party's permissive attitude towards rural enterprises was a pre-condition of development. The Party would introduce and encourage those changes because they did not contradict with its past. Also for the same reason, those changes could be carried out by the existing Party and government systems and therefore would not cause major turmoil in the society. A stable society is another critical condition for the reform effort to succeed.

The inter-regional disparity in the development of rural enterprises is a phenomenon that attracted people's attention. For uneven development may cause various social and economic problems in a society, such as the conflict between advanced and backward areas. To explore the causes of this phenomenon, I focus on an aspect that was not widely investigated in the existing literature. While admitting the impacts of many obvious conditions on the inter-regional difference, such as geographic location and closeness to major industrial and commercial centers, the data collected in my field study show that the policy of local government and the behavior of local officials are critical factors because they significantly affect business environment within local communities. Under similar conditions, if policies of local government and actions of local officials were supportive to entrepreneurial activities, rural enterprises tended to grow fast in that area.

The last issue discussed in this chapter is about the validity of several Ach related propositions of "Achieving Society" in explaining entrepreneurial activities in China. Evidence collected in this study support the validity of those propositions, for

instance, the positive association between higher collective n Ach level and the rate of economic development in a society, the notion that a period for building up n Ach energy in a society precedes the rise of a civilization, and occupational choice of people with higher n Ach in a society in which the natural channels to release n Ach related energy are blocked. Because the propositions in “Achieving Society” regarding the role of n Ach in economic development were primarily derived from the experiences in other societies, this finding has a profound implication. It suggests that there be some common conditions that underlie social and economic development in many societies. In addition to the interest of scholarly inquiry to search for universal rules, the existence of common conditions of development have practical implications because they are the conceptual foundations to apply the knowledge and experiences from one society to the others.



Chapter Ten

Summary and Conclusion

The sudden rise of Chinese rural enterprises was not only the great economic news, but also a rare opportunity for a close observation of complex societal change. This phenomenon represented an accelerated and condensed change process that happened in a short period, at a massive scale, and covered almost every section of Chinese society. Thus, it permitted researchers to collect a comprehensive set of information about changes in a society, which would normally take decades to accumulate, and allowed people to conduct in-depth investigations to the extent that could only be a dream under normal circumstances. Through comprehensive analysis of Chinese rural enterprises, the primary goal of this study is to provide a better understanding of the development in China, improve our knowledge of societal change and human behavior, and learn practical lessons that are valuable for the future development in China and other countries.

Several topics will be covered in this chapter. First, I will present a synthesis of findings. The previous chapters primarily devoted to in-depth analyses about the impacts of specific environmental or personal variables in the development of Chinese rural enterprises. The synthesis is to integrate those findings and form a big picture of how the actions of Chinese rural entrepreneurs were affected by environmental and personal conditions and how their actions affected rural enterprises and Chinese society. Second, one goal of this study is to explore and test some theoretical and methodological issues of

societal phenomena and human behavior. Based on the qualitative and quantitative evidence, theoretical and methodological implications of findings will be presented. Third, as a unique pattern of economic development and societal change, the development of Chinese rural enterprises no doubt can offer practical lessons that are valuable for future development. I will summarize some practical implications as well. Finally, as a successful economic phenomenon, it would be natural to ask about the future of Chinese rural enterprises. The last part of this chapter will address this concern.

1. A synthesis of findings

From the discussions in the previous chapters, three themes can be extracted regarding the development of Chinese rural enterprises.

- Supporting the central theorem of this study, evidence from various perspectives show that the development is jointly determined by the environmental conditions of Chinese society and global community and personal conditions of those involved. Specifically, personal conditions include two categories: individual ability and motive, of which need for achievement is particularly important. At a macro level, we see that the conditions of Chinese society and global community and the collective characteristics of Chinese people, particularly those of rural people, determine the opportunities and scope of development. At a micro level, we see that the individual characteristics and the conditions of immediate business environment affected the behavior of entrepreneurs and the performance of their companies.

- The development follows an evolutionary and progressive process. This theme has two implications. First, as a societal phenomenon, Chinese rural enterprises started to attract people's attention after the economic reform. Nonetheless, it was closely linked to the past of China. The conditions of Chinese society formed through CCP's activities and Mao Zedong's effort are particularly important in understanding this phenomenon. Second, the changes did not occur overnight and from ground zero. There was a long process leading to the success of 1980s and 1990s. The development of one stage was always built on the previously prepared conditions and its outcomes became the conditions for the development of next stage.
- The last theme is that various personal and environmental factors affected the actions of rural entrepreneurs in interactive and interdependent manners. The impact of one factor was often depended on the conditions of other factors. While the actions of rural entrepreneurs were affected by various conditions, the outcome of their actions changed those conditions and created new business environments in which rural entrepreneurs were required to modify their course of actions for further development.

Society, individual ability, and motive

This study attempts to improve the understanding of societal changes and human behavior through analyzing how the actions of Chinese rural entrepreneurs were affected by various environmental and personal conditions and consequently how their actions affected the development of Chinese rural enterprises. Apparently, a pre-condition for such an investigation is that Chinese society should provide people with opportunities for

entrepreneurial activities. An opportunity is a form that environmental conditions affect people's behavior in which the possibility for an action to take place and produce the expected outcome is determined by the availability and accessibility of resources. Also the existence of an opportunity means that people can change a situation through their efforts and the outcomes of their actions are not completely determined by the factors beyond their control.

As the previous discussions showed, before the economic reform started in 1978, the political conditions of Chinese society virtually deprived people of opportunities for entrepreneurial activities, though many other conditions had been prepared. Change in political conditions became a key for any large scale entrepreneurial development. The criticality of political conditions is due to the fact that Chinese government was so powerful and without its support or endorsement, it is impossible for any change attempt to be successful. As many people recognized, a series of change in CCP's policy after the economic reform triggered many opportunities for changes in Chinese society, including the development of rural enterprises. The direct cause for those opportunities to emerge was the shift of CCP policy priority in 1978 from class struggle to economic development, as discussed in Chapter Four. After that change, the CCP was relieved from the ideological constraints and free to set forth policies that would inevitably open the door for entrepreneurial activities.

It is necessary to point out that the mere change of policy priority alone was not sufficient to form opportunities for large scale entrepreneurial activities in rural areas, if other conditions were not available. In this study, three sets of other conditions were

discussed that were critical in determining opportunities. These conditions included availability of critical business resources, accessibility to those resources, and competitive advantages that rural enterprises enjoyed in the markets. Nonetheless, the changes in political conditions were so crucial because it removed the constraints that prevented the utilization of other conditions.

First, in terms of the discussions in the previous chapters, many critical resources for the development of rural enterprises were available in Chinese society before the economic reform, for instance, market demand, supply of materials and equipment, source of labor force, and source of technical personnel. Only the seed capital for initial development was largely due to the improvement of rural economy as the result of rural reform. Second, regarding the conditions affecting the accessibility of those resources, they had also been prepared before the economic reform. The existence of rural-urban dualism structure restricted rural people to participate in entrepreneurial activities primarily in rural areas. At the meantime, such as structure also provided numerous official or unofficial links between rural and urban areas that allow rural people to have access to the resources in the urban sector of economy. Furthermore, the egalitarian nature of Chinese society was created as the results of many mass movements before the economic reform, particularly cultural revolution. Such a feature determined that opportunities for entrepreneurial activities was distributed to the majority of population fairly equally. Finally, the discussion in Chapter Five suggested that rural enterprises enjoyed certain competitive advantages over other potential players under the given market conditions, for instance, being highly responsive to market conditions and being

compatible with the specific market demands at the early stage of development. The conditions that endowed rural enterprises with those advantages also existed before the economic reform, such as the weakness of state enterprises in responding to market signals and the incompatibility of foreign companies with the market demands in late 1970s and early 1980s.

Therefore, before the economic reform, the environmental conditions for entrepreneurial activities in Chinese rural areas had mostly been prepared except that politically, people were prohibited from practicing entrepreneurship. A supportive or permissive political environment for entrepreneurial activities was the only missing condition for creating opportunities. Once political conditions changed, the basic elements of environmental conditions for the development of rural enterprises were all presented. Obviously, if any one of those conditions was absent, individual effort could have little impact in achieving entrepreneurial goals. For instance, if the rural-urban dualism was a real caste-like system, as some researcher described it (e.g., Zhou, 1993), rural people could not obtain resources from the urban sector of economy and large scale entrepreneurial development in rural areas would be impossible. Or if there was not a market with sufficient capacity, a massive scale of entrepreneurial activities could not be sustained. In brief, the opportunity for the development of rural enterprises was characterized that rural people were allowed to participate in entrepreneurial activities but restricted in rural areas; critical resources were available but required extraordinary effort to get; the majority of rural people were able to access those resources; and structurally,



rural enterprises enjoyed certain competitive advantages over other potential players in the markets.

Once opportunities were available, naturally, the other issues for investigating the actions of rural entrepreneurs would be whether rural people had prepared to act. Those issues primarily reflect how personal conditions determine actions. There are two major concerns in this regard: people's motive and ability, as discussed in Chapter Three, Six, and Seven. First, questions were asked that did Chinese rural people have optimal level of motive to act upon entrepreneurial opportunities and sustain on their actions? Specifically, in the case of entrepreneurial activities, need for achievement is the primary object of investigation. The second concern was whether Chinese rural people possess abilities and skills required to perform entrepreneurial tasks.

Those two concerns were addressed at both macro and micro levels. At the macro level, the analyses suggested that the value orientation of Chinese culture and CCP's education effort in particular substantially raised the level of collective n Ach in Chinese society. According to McClelland (1961), once the opportunities for entrepreneurial activities emerge in a society with an optimal level of collective n Ach, a great number of people should be drawn into entrepreneurial occupations. This was exactly what happened in China after the economic reform. On the ability issue, the progressive policy adjustment by Chinese government in rural reform followed the natural learning process and allowed rural people to acquired and practice the basic entrepreneurial skills. Also sufficient number of Chinese rural people possessed the optimal level of critical abilities for initial business development, as discussed in Chapter Seven.

At the micro level, numerous evidence shows that although opportunities for rural people to practice their entrepreneurial potential were available, for individual rural entrepreneurs, there were mountains of difficulties that one had to overcome to reach entrepreneurial goals. The sources of those difficulties were many, for instance, the discriminative attitudes towards rural people by other social groups, the primitive working and living conditions in rural areas, and the structurally determined barriers to prevent rural people from utilizing urban resources. Under such conditions, the strength of n Ach determines whether an entrepreneur is energized to overcome difficulties and turn opportunities into reality, or de-energized and withdraw. As predicted in "Achieving Society" (McClelland, 1961), outstanding rural entrepreneurs tended to display more behaviors that were attractive to people with higher n Ach, such as making improvement in business operation, being sensitive to the information about one's performance, and taking calculated entrepreneurial risks in which one would make effort to reduce the possibility of failure and increase the possibility of success. Basically, the qualitative and quantitative evidence of this study all showed that people with high n Ach were more likely to be drawn into entrepreneurial occupations and be successful as entrepreneurs.

Chapter Seven was devoted to the discussions of how difference in individual abilities differentiated entrepreneurial performance. First, optimal levels of analytical and conceptual abilities were required at various stages of business development. For a rural enterprise at initial development stage, lower level of analytical ability is critical to catch short term market opportunities. At this stage, sophisticated analysis and strategic planning, that require higher level of analytical and conceptual abilities, are actually

detrimental to business development. Those activities could slow down reactions to short-term market opportunities which are critical to the survive and development of a business at the early stage. Even if an entrepreneur possesses strong analytical and conceptual ability, he/she should refrain from high level thinking activities and focus attention on immediate business issues and opportunities. As the analysis in Chapter Seven showed, collectively, Chinese rural people were specialized in lower level analytical ability that matched the requirement of initial business development very well. Further analysis showed that as a business growing, the importance of long-term strategic planning increases. Then, higher level of analytical and conceptual ability are required after a business passes the initial stage. Entrepreneurs whose business grew faster than others tended to display evidence that they possesses higher level of analytical and conceptual abilities. Other abilities addressed in this study include optimal level of mental ability to withstand uncertainty and to be other focused even after one entered the center of attention.

In term of the impact of personal conditions on the development rural enterprises, the analysis showed that collectively, Chinese rural people possessed optimal level of n Ach and critical abilities that were compatible with requirements of business development. This was particularly true at the initial stage of development. These findings helped to explain why so many Chinese rural people involved in entrepreneurial activities and collectively they were very successful.

Evolutionary development

For investigating the development of Chinese rural enterprises, this study also adopted a historical perspective of analysis. For a societal phenomenon of a huge scale, changes cannot happen overnight. There has to be a long process of evolutionary development in which various critical conditions are gradually prepared.

To discover the root of development, this study particularly focused on the history of the CCP because Chinese rural enterprises was a phenomenon under its leadership. The historical analysis traced back to CCP's practice during the guerrilla base period, as early as 1920s. It revealed that several critical conditions of development were prepared as the results of CCP's previous practice. Furthermore, after the fast growth of rural enterprises started, the development was characterized by the evolutionary nature as well.

During the guerrilla base period, under Mao Zedong's leadership, the CCP made persistent efforts to develop base economy as means of supporting its revolutionary agenda. In its effort to strengthen base economy, rural non-agricultural development was always an integrated part which resembled in many ways to the development of rural enterprises, as discussed in Chapter Two. To some extent, the development of rural non-agricultural production in guerrilla bases can be regarded as the prototype of rural enterprises. Therefore, rural non-agricultural development was a familiar rather than novel concept to the CCP. After the economic reform, the government policies on rural enterprises resembled those set forth by the base governments to promote non-agricultural production in base areas. From a broad perspective, the CCP has a strong rural tradition as the result of Mao's rural-based strategy for Chinese revolution. This tradition served as

emotional foundation for the Party and the government to identify themselves with the actions of rural people. Thus, when rural people demonstrated their initiative in promoting rural economy, such a rural tradition made it emotionally easier for the Party to understand the need of rural people and support their actions.

Many other critical conditions for the initial development of Chinese rural enterprises had close ties with what the CCP and Chinese government had done before the economic reform as well. For instance, as the result of CCP's effort to gain economic independence, China had established a comprehensive industrial base. This condition was so critical because it was the resource base for the large scale development. The egalitarian nature of Chinese society was the result of CCP's persistent effort to strive for a classless society. This condition was critical because it assured that opportunities could be accessed by the majority rather than only a selected few. The socialist strategy of economic development, which favored heavy industrial over light industry and urban areas over rural areas, created a market situation of severe shortage of consumer goods and weak supply capability of existing economy in meeting the demand. Thus, it offered opportunities for other players to fill in the gap. The rural-urban dualism structure of Chinese society was also the result of CCP's action. This unique feature was critical condition for the development to take a form of rural enterprises. On one hand, it restricted the development in rural areas. On the other hand, it allowed rural people to have access to various resources in the urban sector of economy. CCP's actions also affected the psychological conditions of Chinese people for entrepreneurial activities. The collective n Ach level increased substantially as the results of its persistent and thorough



educational effort. Various mass movements served as effective channels to disseminate information and expertise for rural non-agricultural development, such as the great leap forward, sending government officials to rural areas for labor education, and sending urban educated youth to rural areas for re-education. Though the above mentioned actions caused pain on Chinese people, they nonetheless reformed Chinese society substantially and prepared conditions for large scale development.

After the fast growth started, the development still followed an evolutionary and progressive manner. It was a step-by-step process rather than a life-or-death gamble of one jump over an impasse, like what Gorbachev prescribed for Soviet Union reform. For instance, as discussed in Chapter Four, in response to rural people's demands and guided by the policy priority of economic development, the central government progressively released a series of rural reform policy, from household responsibility system, to specialized household, to remove the restrictions on transporting and marketing products by rural people, to rural non-agricultural production, and to private enterprises. Each adjustment deviated from the previous practice to a moderate degree and promote the utilization of other conditions already prepared in the society. Consequently, substantial growth in rural economy was triggered by each adjustment. The growth triggered by one policy adjustment also prepared conditions for the next stage of development. There are also other evidence of evolutionary and progressive development, for instance, rural enterprises grew from simple to sophisticated, small to large, and entrepreneurial operation to modern management.

Because the changes happened in a step-by-step manner, rural people would not be overwhelmed by many new conditions in a very short period. Instead, they would have time and space to gradually adapt to the new conditions and acquire basic skill to deal with the change in the next stage. This is normally an optimal and constructive learning process. If people were put in a situation that they had to deal with too many new condition at the same time, the outcomes were often destructive. As a result of progressive development, the growth of Chinese rural enterprises was built on solid base rather than a bubble phenomenon. This was evident by the fact that rural enterprises survived several major setback in the development process and kept momentum of growth.

By taking a historical perspective of analysis, this study showed that though the development of Chinese rural enterprises started to attract people's attention after the economic reform, it could not be solely attributed to what happened in the reform process. Many historical events, particularly the practice of the CCP, played important roles in forming this phenomenon. A consequence of taking a historical perspective is to confirm Mao's contribution to the development. What he had done before he left his people prepared several critical conditions for the fast development after the economic reform.

Interactive and interdependent process

In affecting the actions of Chinese rural entrepreneurs, the impacts of personal and environmental factors were often realized through interactive and interdependent

processes. An interactive process means that the impact of one factor is affected by the conditions of other factors. An interdependent process describes a two-way causal relationship. It means that the condition of a specific factor imposes impact on the actions of rural entrepreneurs. Then the outcomes of rural entrepreneurs' actions can change the condition of that factor and so does its impact on the actions of rural entrepreneurs.

For instance, it is proposed that n Ach has positive impact on entrepreneurial performance. Individuals with higher level of n Ach are more likely to enter and be successful in entrepreneurial occupations. Nonetheless, only if a society allowed people opportunities to practice their entrepreneurial potential, could an overt relationship between n Ach and entrepreneurial success be observed. Before the economic reform, the collective n Ach level in Chinese society was already at an optimal level, thanks to the persistent educational effort of the CCP and the value orientation of Chinese culture. But this collective entrepreneurial potential could not be translated into an effective force to promote the nation's economy because the political conditions at that time effectively deterred people from entering entrepreneurial occupations. Under the policy priority of class struggle, any attempt of entrepreneurial activity by individuals was regarded as a threat to the rule of proletariat hence strictly prohibited. As discussed previously, for the optimal level of n Ach to realize its positive impact on entrepreneurial activity and the economic development, the political condition had to be changed. The CCP changed its policy priority in 1978 from class struggle to economic development. Consequently, such a change triggered explosive entrepreneurial development in China. This example demonstrated that through an interactive process, the political condition and the optimal



level of collective n Ach exerted positive impacts on the entrepreneurial development in China. Without an optimal level of n Ach level, a favorable political condition may not trigger any activity that could promote economy. Without a favorable political condition, it would be very difficult for an optimal level of n Ach to be transformed into successful entrepreneurial activities.

Another example of interactive process is at individual level. For instance, various evidence suggested that the entrepreneur of Fengzhu Bleaching Dying Company had a strong achievement orientation. Driven by his achievement desire, he tried many business opportunities but were all not very successful. The turning point of his business endeavor was his encountering with an expert from a state research institute who later became the company's chief engineer. The cooperation between them was a key for the success because the expertise of the chief engineer made up the technical deficiency of the entrepreneur therefore improving the effectiveness of his business attempt. Also the business opportunities brought up by the entrepreneur allowed the chief engineer to fully realize his expertise. In this example, the positive impact of n Ach on entrepreneurial performance was observed once an optimal level of technical support was available. Without such support, the entrepreneur might keep trying a variety of business opportunities but it could be very difficult for him to reach the level of success as he achieved in the Bleaching Dying Company.

The interdependent process was most evident in the release of a series of policy adjustment that promoted the development of rural enterprises. Initially, freedom in agricultural production was a priority that concerned rural people and they took initiative



in that direction. In search for strategy to promote rural economy and responding to the initiative of rural people, the government endorsed family responsibility system. This adjustment caused rural people to take actions and explore newly emerged opportunities in agricultural production and promoted rural economy. Nonetheless, the outcomes of their actions changed the priority that concerned rural people from freedom in production to commercialized agricultural production which could bring greater return to their efforts. The new priority called for new policy adjustment by the government. That was an important cause for the government to make further policy adjustment and endorsed the specialized household. After commercialized agricultural production developed to a substantial level, non-agricultural development became a new direction in rural people's effort to search for greater economic return and need to be addressed by the government. This new priority by rural people caused the government to release a series of policy adjustment to promote rural non-agricultural production, known as the development of rural enterprises. Through such an interdependent process, the government made adjustments that removed some political and administrative constraints to address rural people's priority. Then rural people took actions in respond to the new opportunities created by the policy adjustments. Once people started to act, the situation improved and new priority moved to the surface and caused the government to make further adjustments.

Another example of the interdependent development process is the way that market conditions affected the actions of rural entrepreneur and the outcomes of their actions changed market conditions. At the initial stage of development, severe shortage of

consumer goods in the markets determined that the priority of a rural entrepreneur was to produce sufficient quantity of low price goods. Quality and variety were less concerned. Then as results of their collective efforts, the shortage was substantially relieved and customers had more choice to select products. Thus, the actions of rural entrepreneurs changed the conditions of markets. Consequently, under the new market conditions created by their actions, they had to adjust their behaviors and start focusing on quality and variety of their products.

To list these examples is to show that various personal and environmental factors do not affect the actions of rural entrepreneur in a mechanistic and simplistic manner. Therefore, in addressing the contribution of one factors, the conditions of other relevant factors should be accounted for as well. Also the development is not a simple A to B process. The interdependent relationship between the cause and outcome suggested a parallel two-way influence process in which various personal and environmental factors and the outcomes of rural entrepreneurs' actions are causes and conditions of each other. The dynamic between the two determined that the development of rural enterprises had to be an evolutionary process.

In summary, an overall picture can be drawn regarding how the actions of rural entrepreneurs were affected by personal and environmental conditions and how those actions were translated into the success of Chinese rural enterprises. Driven by the goal of reviving China, the stagnation or even decline of Chinese economy prompted the Party to return to its pragmatic tradition and shift its policy priority from class struggle to economic development. This change removed the key constraint on both the Party and



grass-roots people to take economically oriented actions. Under the new policy priority, the Party were able to accept grass-roots people's initiatives that could help the economy though might not be ideologically correct. It was also able to set forth policies to encourage and stimulate grass-roots people to take actions and promote economy. For grass-roots people, their long suppressed desire for economic reward would no longer be considered as politically incorrect and they would have some degree of political assurance to take initiative. Because other critical conditions for business operation had been prepared in Chinese society before the economic reform, once political conditions improved, the opportunities for entrepreneurial activities were formed. Nonetheless, the environmental conditions also imposed certain restrictions that shaped the form of development. The rural-urban dualism structure determined that rural people had to stay in rural areas to develop non-agriculture production though there were enough channels for rural people to access critical resources in the urban sector of economy. Once opportunities for action are available, collectively, Chinese rural people were well prepared to take necessary actions. They were optimally motivated and possessed optimal level of mental and physical abilities. Therefore, a great number of rural people involved in entrepreneurial activities in rural areas. Since the environmental conditions were supportive and a great number of people possess optimal individual qualities, there were many successful rural entrepreneurs in China. The accumulative contribution of many successful rural entrepreneurs produced the phenomenon of Chinese rural enterprises.

2. Theoretical implications

A variety of theoretical issues were addressed in this study regarding societal change, human behavior, and entrepreneurial activities. I also tested some new approaches and techniques of investigations. Several theoretical and methodological implications will be summarized in this section.

Correlational vs. causal approach for studying entrepreneurship

Two approaches can be identified in the literature used by investigators to study entrepreneurial activities. One is a correlational approach that primarily focuses on identifying and describing patterns of entrepreneurial activities in which specific forms of entrepreneurial practices are associated with specific personal and environmental conditions. The other is a causal approach. By adopting a causal approach of investigation, first, a researcher needs to identify personal and environmental conditions that have to be prepared for entrepreneurial activities to take place. Then the presumed causal relationships are tested with empirical data.

This study applies causal analysis because it is guided by the theoretic propositions regarding individual characteristics and environmental conditions required for effective entrepreneurial activities. As discussed in Chapter Three, the theoretic and empirical work by others (e.g., McClelland, 1961; Pfeffer and Salancik, 1978; Fiedler, 1986; Lewin, 1935; Holland, 1973; Akerman, 1990; Hunter, 1986) provide a conceptual framework to determine those conditions. For instance, market demand, supply of critical resource, political environment for business activities, and motivated and capable people

are all critical conditions for successful entrepreneurial activities. On the other hand, many scholarly investigation on entrepreneurship (e.g.. Zhou, 1996; Wong et al., 1995; Oxfeld, 1993; Zenner, 1991; Cumming, 1980; Wei, 1994, Tao, 1988; Yu & Huang, 1991) used correlational approach. A common theme in their research strategy is the focus on associations between various personal and environmental conditions and specific forms of entrepreneurial activities.

One example of correlational analysis is that identifying and analyzing regional development patterns accounted for a substantial portion of Chinese scholars' work on rural enterprises. About seven regional models were identified, which included Sunan model (The region of southern Jiangsu Province) characterized by its collective ownership of enterprises and close business tie with major commercial and industrial centers, Wenzhou model characterized by family business and the production of "little stuffs (such as cloth buttons), Jinjiang model characterized by joint-family business and the production of overseas-style clothes and shoes, Zhujiang model characterized by the involvement of Hong Kong capital and export oriented production, and several other models. In explaining the formation of those models, various associations between external and personal conditions and the distinctive features of each model were listed. For instance, the extensive cooperation between rural enterprises and state enterprises in Sunan model was associated with the closeness to major commercial and industrial centers. Extensive ties with overseas Chinese accounted for the large scale production of overseas-style clothes and shoes in Jinjiang model. Shortage of material resources in the local community explained the production of "little stuffs" in Wenzhou model. For



Zhujiang model, its adjacency to Hong Kong explained the extensive participation of Hong Kong capital in the development and export oriented production in which Hong Kong served as the channel to international markets.

Examples of identifying various models in entrepreneurial activities are abundant in literature. Study of cultural difference in entrepreneurial activities is a popular topic in this regard. Its main focus is to compare the association of collective vs. individualistic cultural orientation to entrepreneurial activities. "Collectivism is best characterized by family integrity." (Triandis et al., 1990). A frequent theme in this type of investigation is about the family orientation of small business operated by Asian people, particularly Chinese, Japanese, Korean, and Indian whose cultures are considered as collective oriented (e.g., Oxfield, 1993; Light, 1980; Wong, 1990, Harrell, 1987). Many of Asian people's small businesses were owned by families, either nuclear or extended (Light, 1980). Asian business people are also more likely to resort to family members or kinship relations for various resources, such as labor, capital, and security. In entrepreneurial activities, it means that family rather than individual is the basic unit of economic competition and provides impetus for innovation and the support for risk-taking. Wong (1990) named such a phenomenon as "entrepreneurial familism". Some researchers (e.g., Cummings, 1980) went farther to claim that collectivism characterized entrepreneurial activities of immigrants in the United States, not just limited to people of Asian ethnicity, though evidence show that the collective orientation of people of Western origin, such as Greeks, is weaker than that of Asian people (Lovell-Troy, 1980).



Concentration by a specific ethnic group in one production area is another frequently addressed issue in correlational analysis. For instance, the Chinese in Calcutta of Indian concentrated in tanning business (Oxfeld, 1993). Disproportionally more Koreans in Los Angeles engaged in retail business (Light, 1980). Greeks in Connecticut focused on Pizza business (Lovell-Troy, 1980). The concentration of early Chinese immigrants to the US in restaurant and laundry business was a well documented phenomenon. Or in general term, minority immigrants tended to enter areas of production associated with lower social status in host societies (Zenner, 1991; Oxfeld, 1993). The similar issue was also addressed in the studies of Chinese rural enterprises from a different perspective. A phenomenon in the development of Chinese rural enterprises was that one or several villages or even an entire township were often specialized in one area of production. For instance, in Jinjiang City, there were villages specialized in shoes, fishing net, or even counterfeiting imported liquor. In Wenzhou City, there were villages specialized in button production or recycling fiber. In Wujiang City, I learned that one township was specialized in remodeling used gasoline barrel and another township in making wood combs. Longshui Township of Dazu County was specialized in small metal hardware. One explanation to this phenomenon is that people in the same village or township were all connected through kinship networks or other social mechanisms which helped to defuse expertise and provide people with channels to access various resources.

The above listed findings obtained through correlational approaches are only a few examples rather than exhaustive of the literature. An impression people may get from these examples is that there are many forms or patterns of entrepreneurial activities. Also



each pattern listed above is uniquely determined by the conditions of its surrounding, though some generic conditions were investigated, such as the influence of culture.

If these findings are analyzed using the conceptual framework of this study, they actually can all be explained by a few underlying factors, for instance, the efficiency-orientation of entrepreneurs. Entrepreneurial activities are attractive to people with higher n Ach. Striving for efficiency is a distinctive feature of achievement oriented people for it represents effort to surpass a standard of excellence. Driven by the desire for efficiency, to reach their business goals, entrepreneurs would naturally look for resources that are most readily available, though less exciting, rather than make extraordinary effort to search for more glamorous but harder to get supplies. Furthermore, entrepreneurs would operate their businesses based on readily available resources in a given environment rather than following a prescribed pattern that may require the supplies of hard-to-get resources. As result, the pattern of entrepreneurial behavior varies across different settings because the type of readily available resource differs in each setting.

Following this line of reasoning, various development models of Chinese rural enterprises were formed because rural entrepreneurs in a given region creatively utilized the readily available resources, for instance, the closeness to major industrial and commercial centers in the Sunan model, the adjacency to Hong Kong in the Zhujiang model, and extensive overseas Chinese connections in the Jinjiang model. The Wenzhou model represents an example that local resources were scarce but entrepreneurs creatively utilized the most readily available resources from other regions. What the Wenzhou entrepreneurs did was to use recyclable materials dumped by the state enterprises, which

were easily accessible for non-state enterprises at that time, and produced "little stuffs" that were highly demanded by the markets. Thus, the use of recycle materials and the production of "little stuffs" became a distinctive feature of the Wenzhou model.

The efficiency orientation can also be used to explain why entrepreneurs of Asian cultural background, particularly people from East Asia, often operated their business on a family base. It is commonly acknowledged that East Asian cultures are characterized by collectivism, in which family integrity is greatly emphasized. The norms and values in those cultures enhance the ties among family members. Also constant exposure to family based norms and values, people are trained to follow family-centered behavioral patterns. As result, in those cultures, family members become the most readily available resources for all kinds of support. Of course, entrepreneurial activities would not be an exception in this regard. If there are not other sources of resources that are more readily available, the first choice that Asian entrepreneurs look for support to their businesses would be their family members, either nuclear or extended. They would do so because family members can be reliable and low cost sources of capital, labor, and management. This phenomenon happens both among immigrant entrepreneurs in other countries and entrepreneurs in their home countries. Many Chinese rural enterprises were family businesses.

Thus, the phenomenon of family based business is partly the result of efficient use of culturally endowed resources and skills by Asian entrepreneurs. The reasons why those patterns were less typical among the western entrepreneurs is because the western cultural traditions do not nurture family-based resources and train people to use those resources to the extent Asian cultures do. Similarly, the efficiency orientation of entrepreneurs also



explains the concentration of one ethnic group in a specific production area. For expertise and experience of a specific business is more easily accessible from members of the same ethnic group. Lovell's (1980) study on Greeks in Connecticut and their concentration in the pizza business vividly demonstrate this point. His study showed that the most readily available sources of business expertise and experience to Greek immigrants were family members and acquaintance whom were all Greeks. Also the expertise and experience they can provide are primarily in the pizza business. In the development of Chinese rural enterprises, the phenomenon that one or several villages specialized in one area of production can be explained by the same mechanism as well.

From the analysis of efficiency orientation of entrepreneurs and the patterns of entrepreneurial activities, it is reasonable to conclude that true entrepreneurial activities are responsive to resources available in a specific environment rather than demand the same set of condition across different settings. The term true entrepreneurial activities implies that one acts on his/her desire rather than by external forces. It is what McClelland (1961) described as holding an entrepreneurial position vs. acting entrepreneurially. Therefore, true entrepreneurial activities do not required specific cultural background. If there is no culturally endowed resources, entrepreneurs would turn to other readily available sources. Nonetheless, if a culture does provide people with readily available resources, such as family-based resources in Asian cultures, entrepreneurs with the proper cultural background would not hesitate to use it. By the same token, entrepreneurial activities do not required to be close to major industrial and commercial centers but entrepreneurs will use the resources if it is available to them. If

not, they would look for other resources. In the case of Wenzhou model, though the local resources are scarce, strong entrepreneurially oriented people managed to obtain resources from other channels. The key here is that entrepreneurs would not let the most easily accessible resources being wasted and look for other harder-to-get resources. Thus, immigrant entrepreneurs of Asian cultural background would not refuse to utilize non-family-based resources if that are more readily available than family-based resources. But the reality is that other resources in host countries were often less readily available.

While admitting that the correlational approach contribute significantly to document and summarize various patterns of entrepreneurial activities, a weakness of this approach is that findings from one setting often do not hold in others because each pattern is uniquely determined by the conditions of its surrounding. Thus, the great variety of findings by the correlational approach may give people impressions that entrepreneurial activities in different cultural settings or geographic locations are fundamentally different and there is not a set of general rules underlying those activities. For instance, some authors even claimed that there were no specific personal traits predicting entrepreneurial success (e.g., Wong & Mu, 1995:39). This claim apparently is not true because evidence from this study and others' work show that *n Ach* is a critical individual characteristic for entrepreneurial success.

Another consequence of using the correlational approaches is that investigators frequently have to modify research assumptions case-by-case. For instance, the assumption of the concentration of minority immigrants in businesses associated with low social status can not address the phenomenon that the new generation of immigrants from



China, Korean, and Japan concentrate primarily in professional fields, such as scientists and engineers. What explains the behavior of Chinese and Japanese immigrant entrepreneurs does not account for the behavior of Korean entrepreneurs well (Light, 1980). In Oxfeld's study (1993), Chinese who immigrated from China to Calcutta are extensively involved in tanning business. Nonetheless, when the members of the same group of people immigrated from Calcutta of India to Toronto of Canada, they were no longer engaged in operating their own business. Instead, they became salaried employees and work for other people. Then the hypotheses explaining the behavior of Chinese in Calcutta can not be used to explain the behavior of the same group of people in Toronto. The researcher has to look for different explanations.

It is interesting that when a pattern of entrepreneurial activity identified through the correlational approach in one setting cannot explain the phenomenon in another setting, investigators often resort to a causal approach to solve dilemma. In explaining why Chinese immigrant from Calcutta to Toronto no longer maintained their family traditions as business owners, one explanation Oxfeld (1993) used was because their financial strengths were not strong enough to open business in Canada. Thus, the discontinuing of entrepreneurial practice was ascribed to the lack of necessary resources. In another study, Light (1980) recognized that though the Korean immigrants in Los Angeles still displayed collective-oriented practice in business operation, Korean businesses were primarily based on the nuclear family. Extended family, large unit of clan, and regional association, which were very important in the pre-war Chinese and Japanese immigrants' businesses, were less important to Korean immigrants. In

explaining the difference, Light cited the unbalanced sex ratio among pre-war Chinese immigrants as making it impossible for nuclear-family based business. Also Korean immigrants were well educated, had substantial financial strength, and more westernized. Thus, they could rely more on the nuclear family for business resources. Finally, to address the question of why a model of development of rural enterprises could not be applied in other areas in China, the frequently used answer was that the resource conditions differed from region to region. Also the difference in the quality of people, such as a sense of commercial activity and desire to overcome difficulties, would be cited. Apparently, all these explanations used the causal approach because entrepreneurial activities were considered as resource-based.

The fact that investigators using correlational approach often need to modify their research assumptions to fit different situation suggests that this approach is not able to reveal the underlying causes of entrepreneurial activities. As the evidence shows, a set of general principle derived through the causal analysis does explain entrepreneurial activities across cultural and social setting. Though entrepreneurial activities may take different form in different setting by people with different cultural background, the achievement orientation of entrepreneurs, the supply and accessibility of business resources, and basic skills are three sets of major determinant for effective entrepreneurial activities.

In terms of relationship between the two approaches, the findings of correlational analysis suggest that though a set of general rule may guide entrepreneurial activities across different setting, the actual execution is affected by the specific conditions of each

place and the quality of people involved. The same principle can be expressed in different forms in different settings. While the findings of causal analysis reveal the principles of human activity, the findings from correlational analysis help people to understand how a general principle is operated in a specific environment. Thus, in practice, people should apply the principle in conjunction with actual conditions rather than blindly copy a specific pattern. A pattern can help to understand the principle but is not a principle itself. Therefore, a relationship identified through the causal analysis holds promise of being universal. For such a relationship is determined by the functional requirement rather than contingent on environmental conditions or psychological state of individuals. The applicability of McClelland's propositions on the relationship between n Ach and entrepreneurship in Chinese rural enterprises is a good example in this regard.

It is understandable that the true causal relationship may not be evident at beginning of investigation and may never be perfectly understood due to the limit of knowledge. Nonetheless, it should be an integrated part of any research effort to identify the causes and look for what is required for a specific phenomenon to happen. The initial knowledge may not be perfect or even erroneous. As long as persistent effort is made, our understanding will improve continuously. Or the findings of scholarly investigation will always stay at the level of describing phenomena rather than reveal causes, which hold greater practical value to human beings and societies.

Affective vs. cognitive indicator in predicting behavior

To predict human behavior and performance is always a priority of psychological research. The study of attitude, which dominated the field of social psychology for decades, is primarily driven by this goal. "Psychologists focus on the concept of attitude because of the assumed relation between attitude and behavior." (Petty & Caciopo, 1981:2). Though great efforts were made, to people's disappointment, attitude is a weak predictor of behavior or behavioral outcomes (e.g., Duckitt, 1993; Greenwald, 1990; Wicker, 1969; McBroom & Reed, 1992; Eagly & Chaikin, 1993). It is particularly weak in predicting spontaneous and persistent actions for the attainment of a goal state. The dilemma of "attitude-behavior inconsistency" bothered researchers and raised doubts about the value of psychological research.

To predict entrepreneurial activity and performance, this study focused on motive, specifically need for achievement. As discussed in Chapter Three, both conceptual analysis and existing empirical evidence suggested a positive relation between the two. What differentiates this study from other motive studies is the use of a new affective-based measurement. Two reasons account for the decision to create a new motive measure. First, although there are many self-claimed questionnaire motive measures, they in fact do not measure motive. For instance, the typical approach of measuring n Ach by questionnaire requires people to report the extent to which they value achievement goals and/or possession of various motive-related characteristics (Koestner et al., 1991), such as moderate risk-taking, personal responsibility, and performance feedback. By recording people's evaluation about the importance of achievement related subjects, the

conventional questionnaire measures actually assess a construct the same as attitude. Given the weak relation between attitude and behavior, it can be expected that those measures do not predict entrepreneurial performance and empirical evidence supports this assumption (e.g., McClelland, 1987; McClelland & Winter, 1969; Rahman, 1988). Second, motive is also assessed by projective approaches, of which TAT (Thematic Apperception Test) is the most prevalent. Nonetheless, TAT is impractical for this study because it demands excessive resources in test administration and data analysis. Also various subjective biases make this instrument an unreliable measure of motive, though it sometimes demonstrates validity in predicting spontaneous behavior.

The new measure uses questionnaire format. What distinguishes it from the conventional questionnaire measures is the verbal cue it records. Unlike the conventional measures which record people's evaluation or judgment about the importance of motive related subjects, the new motive measure focuses on the magnitude of people's negative feeling when their actions of attaining a specific goal state or opportunities for such actions were interfered or blocked. By doing so, the new measure targets at the outcome of affective process whereas the conventional measures are on that of cognitive process. I classified the new measure as the affective-based instrument and the conventional questionnaire measures of motive as cognitive-based.

The rationale for focusing on people's negative feelings as the indicator of motive is derived through a process of introspective thinking. Numerous evidence show that the verbal cues reflecting people's judgment of important or not important do not necessarily indicate that a person really wants or needs something hence has weak relation to their

actions. Then the question would be, what type of verbal cue of individual characteristics can tell whether a person really wants or needs something and would take actions for attaining the expected goal state. To address this question, instead of focusing on what attract individuals to act, I tried to picture a person's possible internal state if he/she could not get what he/she really needs or desires.

Common sense teaches me that though people may tell you that they want many things, to find out what are really desired, an effective way is to take away something from them and observe their emotional reactions. For subjects people really wanted, such situations can arouse their strong negative emotion. If something took away are not really needed or desired, people may responded less emotionally or even indifferent. I tried to imagine what was going to happen if a person really needed or desired something but his/her effort or opportunities to achieve that goal state were interfered or blocked. My experience was that such a situation should arouse a strong negative feeling of uncomfortable or uneasy in that person. The negative feeling puts the person in a restless state and drives him/her to act to attain what is desired or needed. Since the magnitude of negative feeling indicates the degree that a person desires or needs for a goal state, it should be a good indicator of one's motive toward the attainment of that goal state.

My conclusion from the introspective analysis corresponds well with McClelland's (1985) proposition that "motive is based on emotionally arousal incentives that give rise to positive or negative emotions." In the affective-based measure, a motive incentive is the difficulties and barriers that block or interfere with the actions or opportunities for attaining goal states. By overcoming difficulty or remove barrier, one



will be in the behavior process of reaching the desired goal state. If people have an optimal level of motive, they should be emotionally aroused in face of difficulty. Such an aroused emotional state indicates that the person is energized to overcome difficulties and strive for the desired goal state. Although the introspective analysis matches the common experience and fit the existing theoretic proposition, the motive instrument based those analyses has to be test empirically. This study is a good opportunity for this purpose because the positive relation between n Ach and entrepreneurial performance is well documented. If the new instrument predicts entrepreneurial performance, it would be strong evidence of its criterion-related validity.

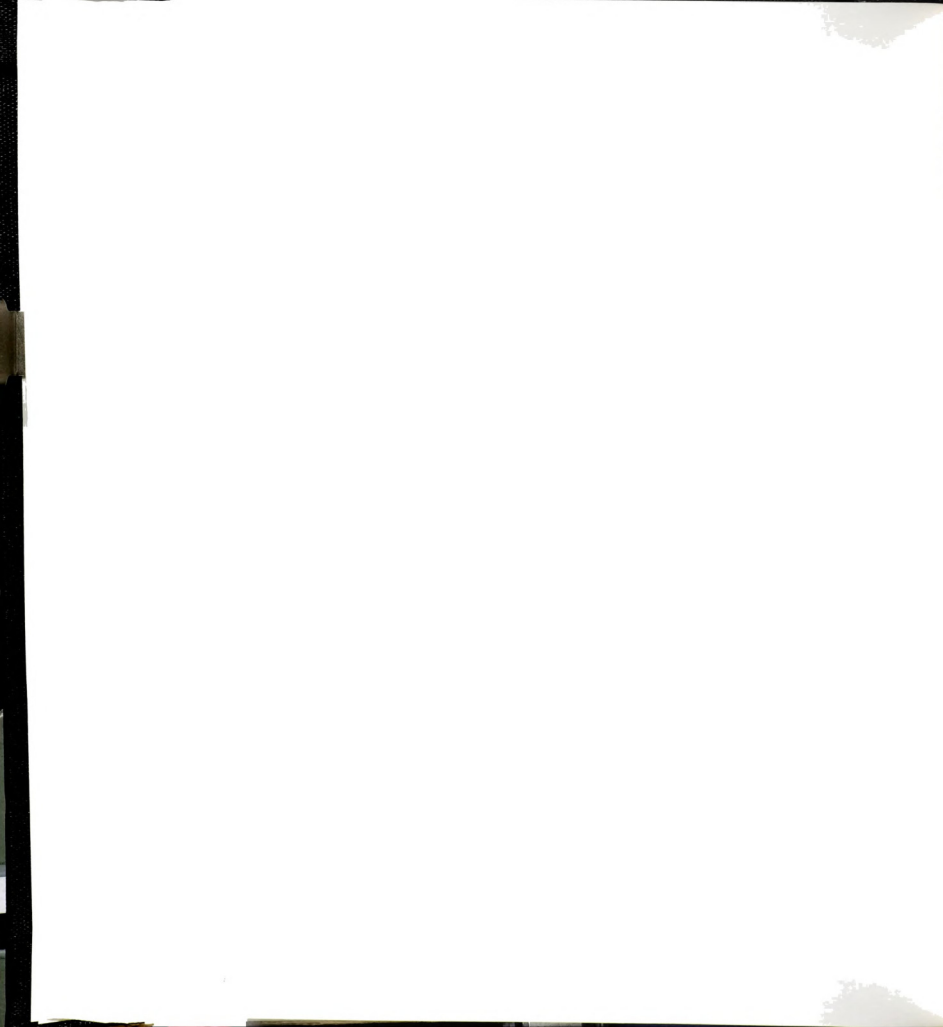
For comparison purpose, both the affective-based and cognitive-base measures were tested in this study. As can be seen, the findings presented in Chapter Eight show that, in consistency with the findings of others' studies, the cognitive measure did not predict the measure of entrepreneurial performance. By contrast, the affective measure does predict entrepreneurial performance. Also the positive correlation between the measure of entrepreneurial performance and the affective motive measure held across multiple settings that were very different from each other in terms of socio-economic conditions. It indicates that the findings reveal the underlying relationship of n Ach assessed by the affective measure and entrepreneurial performance which is independent of the conditions of business environment once people have the freedom to practice their entrepreneurial potential.

These findings, then, shed some light on the valid verbal cue of personal characteristics that predicts human behavior and behavioral outcomes. They suggest that



the outcome of affective process in relation to a specific goal state can be an effective predictor of behavior leading to that goal state. It also suggests that behavior, particularly a behavioral process requiring sustained effort, is primarily driven by one's emotional attachment to rather than determined by careful evaluation of importance of a goal state. Thus, in order to predict behavior, we may need to focus on people's emotional state rather than cognitive judgment. It often happens that a subject is trivial in importance, if judged by common sense, but emotionally is very desirable to someone. Then the person would make persistent effort to reach that subject. Or some commonly regarded as very important subjects may not be very attractive to some individuals. Then one may not act spontaneously for attaining that subject if no external pressure exists.

Basically, the design principle of the affective-based measure suggests that for a behavioral process requiring a person to take a series of action before any sign of approaching the goal state can be seen, the aroused emotion serves as the energy to sustain one's action. To work through such a process often means that a person has to overcome many barriers or blocks interfering with his effort or opportunities to reach the goal state. In face of barriers or blocks, if the person does not experience a strong pressure internally, expressed as strong uncomfortable and uneasy feeling, he/she would be either remain passive and indifferent. Therefore, the evidence of this study suggests that by focusing on people's emotional state associated with a specific goal state, researchers can be in a better position to predict human behavior and performance.



Subjective vs. objective measure of objective conditions

Self-reported measure of objective conditions are often criticized for its accuracy may be contaminated by subjective biases. Though it is always desirable to collect objective information on objective conditions, in many cases, it is practically impossible and self-reported measure has to be used. For practical reasons, this study used self-reported measure of objective conditions. Nonetheless, various empirical evidence justified this strategy because the outcomes matched the objective situations well.

In terms of the quantitative findings presented in Chapter Eight, one set of supportive evidence is that the self-reported assessment does correctly reflect inter-regional differences on the conditions of resource availability. The three main research sites, Jinjiang City, Wujiang City, and Tongliang-Dazu differ significantly on many objective conditions, such as access to raw materials, transportation conditions, local government support, connection with overseas Chinese, market coverage in terms of geographic areas, and source regions for technical personnel. Those differences were all self-evident and could serve as the objective criteria to test the validity of self-reported assessment. The findings based on the self-reported assessment showed that among all three sites, Tongliang-Dazu had the least favorable conditions of resource availability. Rural enterprises in this area primarily relied on local community for market, raw material, and technical personnel. Also the local governments in this area were the least supportive to rural enterprises. These findings matched the actual situations very well.

Furthermore, the conclusions drawn from the data collected through self-reported measures matched the general trend of migration labor in Jinjiang and Wujiang. For

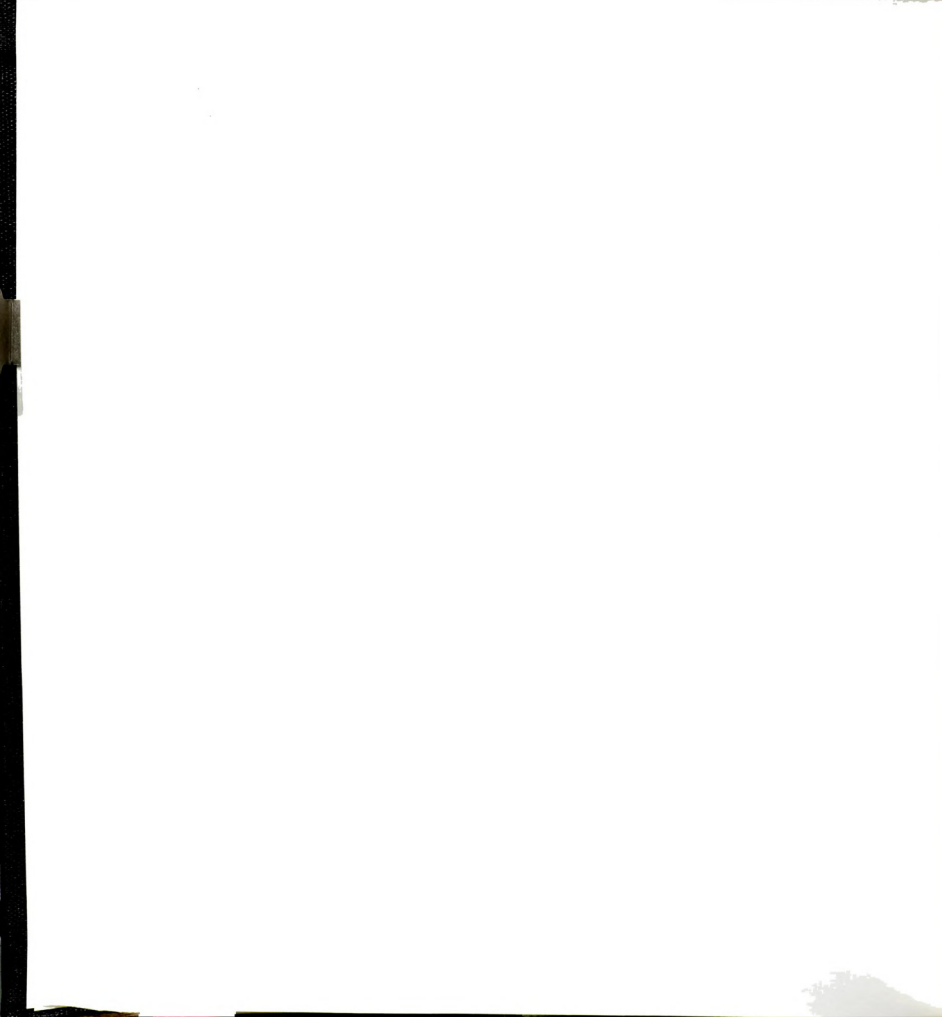
instance, the proportion of technical personnel in rural enterprises who were from non-local area is a good indicator regarding the importance of urban-to-rural migration because those people were primarily from state enterprises or research organizations located in urban areas. In Chapter Eight, the findings showed that for Wujiang enterprises, the source regions for technical personnel were primarily adjacent provinces at the early stage of development and the local areas at the time of this study. It means that urban-to-rural migration was an important form of migrant labor at the initial stage. In the later period, urban-to-rural migration was no longer as important as it used to be and local areas become the primary sources of technical personnel. The situation of Jinjiang City was different. The data showed that at the early stage, they primarily relied on the local area for technical personnel and the non-local areas became the major sources at later period. From these findings, we can infer that urban-to-rural migration labor was not important to Jinjiang enterprises at the early stage but critical at the time of study. The conclusions based on these self-reported measure confirmed my observations about the geographic sources of technical personnel for rural enterprises in these two areas. Evidence collected through my interview with local officials and entrepreneurs also supported the quantitative findings.

The findings that the self-reported entrepreneurial performance measures show different relationships with the affective and cognitive measure n Ach were also evidence to support the use of self-reported measure of objective conditions. As discussed in Chapter Three and Eight, because of the match between entrepreneurial role requirements and career interest of people with higher n Ach, a valid measure of n Ach should predict a

valid measure of entrepreneurial performance. This study used self-reported measure of entrepreneurial performance because the objective information virtually did not exist. To assure that self-reported performance by entrepreneurs reflect the actual situation well, qualitative information from other sources, for instance, local officials, labor workers, and other entrepreneurs, was collected to verify the accuracy of self-assessment.

Basically, evidence showed that reports of entrepreneurs on the performance of their companies matched well with the information I collected from other sources. Also the conceptual analysis showed that the affective measure of n Ach is a valid instrument. Thus, a positive relationship between the two was expected and the data supported this hypothesis. Of course, here I may run a risk of self-evident in terms of the validity of both measure. Nonetheless, the risk of circular validation was substantially reduced by the fact that the cognitive measure of n Ach showed no relationship with the self-reported measure of performance. This finding is consistent with the outcomes of many previous studies that people cognitive judgment is a poor predictor of entrepreneurial performance.

These supportive evidence also justify a strategy of this study to improve the validity of self-reported measures. A key to assure the validity of self-report data is that an object being assessed has to be conceptually valid. If an object is conceptually contaminated, it would be very difficult to assure the objectivity of assessment. For instance, self-reported assessment of task difficulty may vary significantly for the same task because it is at least determined by two factors, individual skill or ability and task requirement. Using an extreme example to demonstrate this point, to lift a fifty pound object is very easy for a healthy adult but an impossible task for an infant. Thus, different



people would report different degree of difficulty for the same task because of differences in individual ability. If such a construct was considered as an objective condition, it would be very difficult to achieve a reasonably objective assessment. On the other hand, if task requirement is the target variable of assessment, then a fairly accurate assessment can be expected because individual difference is irrelevant to this variable. To accomplish a given task, one has to perform required activities no matter how capable or incompetent a person is.

To assure the validity of self-reported assessment of objective condition, a definition of environmental factor was presented in Chapter Three as the conceptual base to determine valid targets. If the target of assessment is conceptually independent of individual difference, people can have certain degree of confidence that a self-reported measure would reflect objective conditions fairly accurate. Any subjective measure is always a biased sample of objective conditions. Nonetheless, if the objective conditions are validly identified, the subjective assessments could not deviate too far from the actual situations. To conclude the discussion of this section, the evidence from this study support the proposition that a self-reported measure does reflect an actual situation reasonably well and can be used as a measure of objective conditions (Caplan, 1987).

Other theoretic and methodological implications

Because a comprehensive investigation about the development of Chinese rural enterprises falls in the fields of many disciplines of scholarly inquiry, many theoretic and methodological implications can be derived from the findings of this study. Nonetheless,

the limited space does not allow a thorough discussion of all implications. Some of them will be briefly summarized in this section.

First, both qualitative and quantitative data were used in this study. These two types of data play different and in-exchangeable roles in analysis. On one hand, qualitative data depicted a real life picture of how various personal and environmental factors affected the actions of rural entrepreneurs and how the actions of rural entrepreneurs integrated various critical resources and contributed to the success of rural enterprises and the growth of national economy. On the other hand, quantitative evidence is critical to reveal the underlying relationships among various concerned objects. It should be pointed out that conclusions drawn from qualitative data may bear a risk of being distorted by subjective biases of the observers. Quantitative evidence collected through a well designed procedure and based on a valid conceptual framework can help to reduce the negative impact of subjective bias and reveal the true relationship. Furthermore, the results based on quantitative analysis have little practical value if there is no qualitative evidence linking them to real life scenarios. For instance, without the qualitative data on the local conditions of each research site, it would be difficult to have a meaningful explanation why Wujiang and Jinjiang Cities showed different patterns in the situation of migrant labor.

Second, in order to achieve a comprehensive understanding of Chinese rural enterprises, this study took a holistic approach of investigation which requires to covers all major factors that affected this phenomenon. As result, both personal and environmental factors, which are the two major set of behavioral determinant, were

investigated simultaneously. Furthermore, to adopt a holistic approach also implies that critical variables received less attention in the previous studies would be emphasized. This study devoted significant portion of resource on the role of motive in human behavior because this factor had not received enough attention in proportion to its importance in understanding human behavior.

A weakness of holistic approach is that less effort can be spent on thorough analysis of individual variables. By contrast, a focused approach of investigation has its advantages in this regard. Such an approach allows in-depth analysis of a few variables. Nonetheless, by focusing on a few variables, a study can only reveal a partial picture of a concerned phenomenon. If the findings from a focused study are applied without considering the impact of other critical factors, the expected outcomes usually cannot be achieved because they do not reflect how things are operated in reality. To compensate the weaknesses of both approaches, a practical solution would be to use a holistic approach to gain a comprehensive understanding of actual situation. At meantime, the outcomes of focused investigations should be the building blocks of a holistic analysis. In this study, the holistic analysis of rural entrepreneurs' action integrated findings from many focused studies, such as the impacts of resource availability, the role of need for achievement in entrepreneurial activities, regional difference in development pattern, and the contribution of policy adjustment by Chinese government.

Finally, this study analyzed variables at both macro and micro levels that affected the actions of rural entrepreneurs. This is a natural consequence of a holistic approach because the impacts of variables at both levels are critical for a comprehensive

understanding of Chinese rural enterprises. For macro level variables primarily reflect the general trend in a society but provide little information how their impacts are manifested in individual actions. On the other hand, micro level analysis allow people to observe how individual actions produce tangible outcomes but provide little information about their connections with the societal phenomenon. By conducting analysis at both levels simultaneously, on one hand, it will land our understanding of general trend on a solid base with direct connection to individuals' actions. On the other hand, by connecting individual actions to the general trend of a society, it helps to integrate a great variety of micro movement and anchor an investigation in the direction of overall development. Thus, instead of a set of disconnected description about micro phenomena that often have little in common from the surface, the findings would provide understanding of the underlying process therefore more likely be universally applicable.

3. Practical implications

As a societal phenomenon that involved many aspects of human activities and related to the rapid changes in many areas, the success of Chinese rural enterprises can offer many practical lessons for various purposes. For instance, this phenomenon represents an alternative strategy of economic development to the traditional model of industrialization. It can be a rich source of experience for economic growth in other countries or areas. In this study, the investigation of Chinese rural enterprises went beyond the scope of economic development and addressed issues that related to human behavior and societal change in general. Thus, from an inter-disciplinary perspective, the

findings have practical implications in many other fields as well, such as education, social development, planning of individual career, and selection and training in an organization. This section is to summarize some of those practical implications.

Past cannot be severed: Progressive development vs. radical change

The sudden rise of rural enterprises in later 1970s and early 1980s was not a phenomenon happened overnight. As summarized in the first part of this chapter, many critical conditions of development had been prepared long before the substantial growth attracted people's attention, for instance, a comprehensive industrial base, an egalitarian society, a society with high level of collective achievement, a market with sufficient capacity, and the rural tradition of CCP. Even after the fast growth started, the development still followed a progressive route in which the activities in one stage are based upon the legacy of the previous stage and prepared the conditions for the following stages.

A progressive route of development means that changes are built upon the conditions prepared in the past rather than made by severing the links with the past indiscriminately. In the latter case, little actions will be taken to lay the ground for the intended change. Instead, people would assume that all critical conditions will be available automatically when they are needed and render their control over to some magic forces. The reform of the Soviet Union in 1980s and 1990s presented a good example in this regard. In designing reform policies and initiating changes in the society, the cultural, political, social, and economic conditions formed in the past were disregarded completely for everything in the past was viewed as the barriers for progress. Complete severance

with the past was considered the only way to transform the Soviet society. Reform policies primarily aimed at the end state and paid little attention to the conditions and resources required for the expected changes. As result, such a practice sent the Soviet society into an economic hell. The country was shattered into pieces and people could only pray for some magic forces to bring all broken pieces back together.

In China's reform process, what the so-called reform elite proposed to reform the nation in mid- to late-1980s was the similar only-end-minded and past-divorced approach. Luckily, the top leaders of China at that time were very pragmatic and refused to take utopian approaches. This was very critical to the success of China's reform, or China might end up in a situation more miserable than that of Soviet Union. In China's reform process, some key constraints for development were removed through a series of policy adjustment, such as the previous policy priority of class struggle, over-emphasis on grain production, and neglect of consumption. If those constraints were effectively in position, it would be very difficult for the nation's economy to grow. Nonetheless, many other conditions formed through the previous practice, though at painful cost of the whole nation, were left almost intact. Those conditions proved to be critical for the success of rural enterprises and the nation's economy.

The reality is, no matter how hard people try, the past simply cannot be completely ignored for it is an integrated part of development process. To incorporate the legacy of the past is particularly important for large scale changes in a society because what happened in the past formed the foundation of people's thinking, feeling, and actions. It also shaped the environment in which changes were about to occur. Thus, by



totally denying the past, a reform attempt would loose support of the existing conditions or even run against them. At meantime, new conditions are yet to form. Judged by the conceptual framework of this study, the outcome of such a reform effort will be primarily determined by external forces that beyond the control of people. In most cases, because it is destructive to the existing structure, the expected outcome is very difficult to achieve.

The past is not always a happy experience to people. Instead, it is often in a form of painful memory. Nonetheless, that people suffered in the past is not an excuse to destroy what had been built up through their suffers. Or it would be a situation of pain without gain. The development of Chinese rural enterprises showed that many conditions prepared at the pain of Chinese people were critical for the success. If those conditions were disregarded, people might be still suffering. For instance, the rural-urban dualism structure was formed at the pain of rural people. As discussed in Chapter Two, such a structure also created opportunities for large scale of rural non-agricultural development. If for some ideological purposes to dismantle this structure and allow rural people to freely move to urban areas, it is very likely that rural areas would remain under-developed and urban areas were inundated by migrants. Consequently, the economic miracle could be still a dream rather than a reality now.

For any reform attempt, to change some part of the past is inevitable or there will be no progress. Nonetheless, indiscriminate severance with the past is as harmful as complete resistance to any change. The former would be destructive and the latter causes stagnation. As the development of Chinese rural enterprises showed, the barriers to progress were just a few constraints, such as the previous policy priority of CCP. The

large portion of the legacy from the past are useful resources for the reform. Once those key constraints were removed, the remaining part of the legacy would be very constructive to the development.

Initiative at grass-roots level and success of reform policy.

Initiative at grass-roots level is an important condition to assure the success of reform attempt. As the evidence of this study suggested, various reform policies that were relevant to the development of rural enterprises were demanded by rural people rather than imposed upon them. Thus, once opportunities were opened by the policy adjustment, rural people did not need to be pushed to make changes. By the contrast, they were eager to taking actions leading to the expected changes.

It is reasonable to conclude that if a reform attempt matches what people at grass-roots level are really desired, it is very likely to be successful. Then a practical issue in designing reform policy is to identify what is really demanded. In doing so, policy makers should be aware that what people really demand is not necessarily reflected in their verbally expressed desires. The evidence that Chinese rural people truly demanded change were their persistent and spontaneous efforts to improve their lives in face of tremendous difficulties. An interesting phenomenon was that rural people did not complain much but worked very hard. By contrast, most urban people I encountered would complain about almost everything. Then I asked that since you were not satisfied with so many things, why not take actions to improve some of them. Then they would reply that everything was impossible because there were so many difficulties. Compared

with the difficulties faced by rural people, I would say that the difficulties faced by urban people were trivial. As the evidence from the affective and cognitive measures of n Ach suggest, if people only verbally value certain goal without demonstrating sustained emotional attachment, their words could be poor predictors of behavior. It is safe to conclude that if a policy initiative is based on people's verbally expressed opinions, particularly on those loudest voice in a crowd, it is less likely to induce the expected actions in proportion to people's words.

Another relevant issue regarding the success of reform attempt is that when people are highly motivated for change, the policy makers should avoid releasing people's energy in an explosive manner. Explosive release of people's energy can be very destructive to any reform attempt. One approach to achieve this goal is to have people's action checked by consequences. In the development of Chinese rural enterprises, though peasant enthusiasm was expressed in a massive scale, it was checked by the market force. Business outcomes set a firm boundary to the actions of rural entrepreneurs because a company had to sell its products and make profits to survive and development. Consequently, peasants' energy was released in a manner compatible with the demand of business development. The situation was different during the great leap forward in which people were allowed or even encouraged to act without paying attention to the consequence. Thus, their enthusiasm was expressed in an unchecked manner and caused severe damage to the nation.

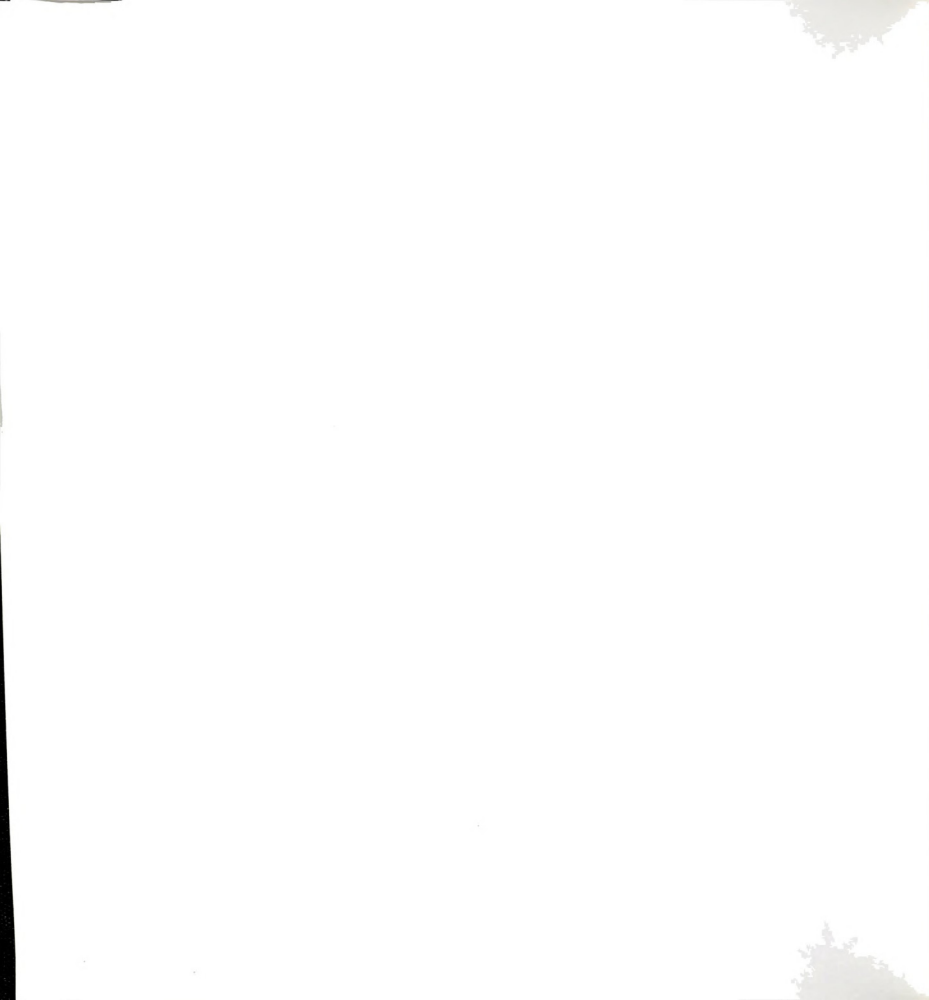
The point of this section is that any reform attempt has to address what really concerns the grass-roots people to mobilizing mass to act in an expected direction. At

meantime, explosive release of people's energy can be destructive to the reform process. A reform attempt should incorporate some mechanism to prevent explosive release of energy and utilize people's enthusiasm in a progressive manner. A footnote to the discussion in the previous section is that by responding to grass-roots people's initiative, a reform attempt can avoid indiscriminate severance with the past. For the initiative of grass-roots level people are closely associated with the reality rather than based on fantasy. Therefore, it has to be built on the existing conditions accumulated through the activities in the past. Furthermore, the information about the direction of people's initiative can help to identify which part of the legacy from the past are blocks to a reform attempt and which part can be useful resources..

Need for achievement and societal change

McClelland (1961) proposed almost four decades ago that need for achievement (n Ach) was critical for economic development in a society. At the micro level, this factor is important because the match between entrepreneurial role requirements and achievement incentives determines that people with higher n Ach are more likely to be successful entrepreneurs than those with lower level of n Ach do. At a macro level, this construct determines how effectively a society responds to opportunities of economic development and the proportion of the population that have optimal potential to become entrepreneurs, judged by the collective level of n Ach. This proposition proved to be true in the case of Chinese rural enterprises.

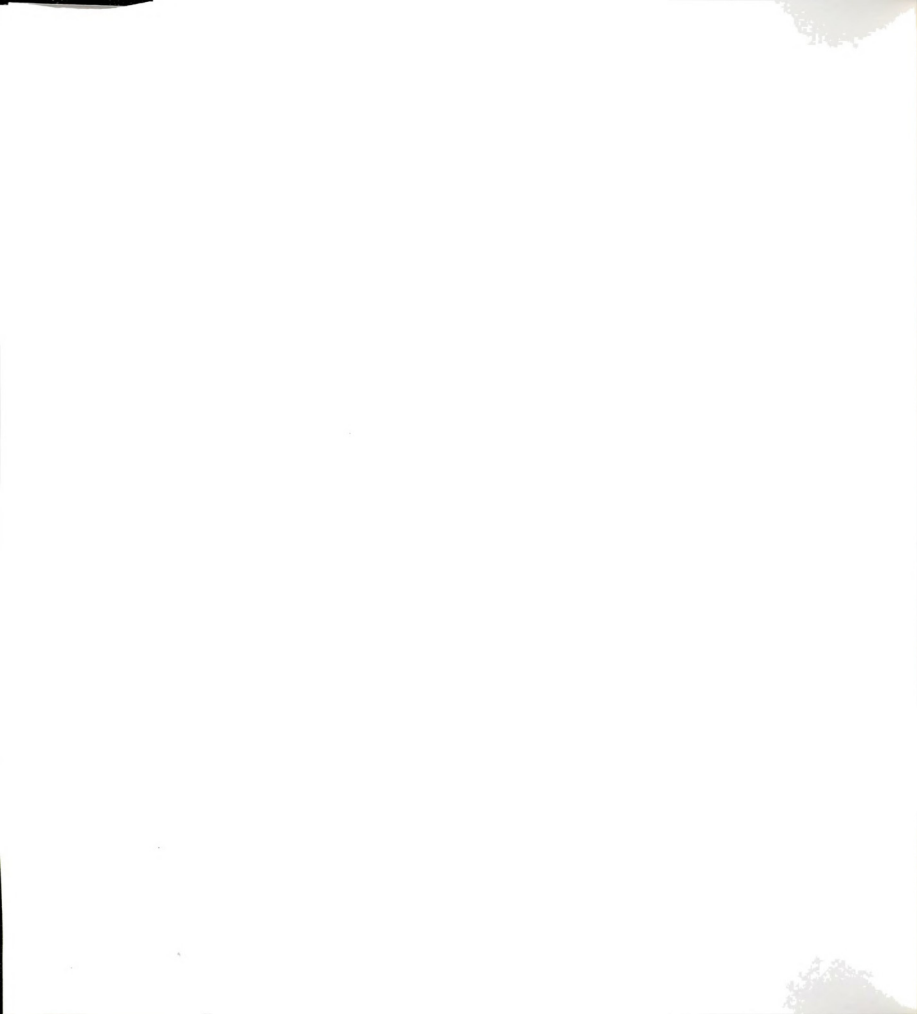
In addition to its critical role in entrepreneurial activities, the findings of this study show that *n Ach* is also important to societal change in a general term. In essence, *n Ach* is about people's desire for improvement and progress which can happen in any field, not necessarily limited to the economic area. Thus, for any attempt of changing a society for better, *n Ach* should play an important role in the process. First, the collective level of *n Ach* to some extent determines the size of sub-population that would demand improvement and progress. If there is a sufficient number of people demanding changes, then a reform attempt will be echoed by people's actions when the opportunities are available. Second, people with higher level of *n Ach* not only desire for the expected goal state, they also have the energy to take various actions in face of difficulties that are necessary for reaching the goal state. Because it is almost impossible that a change attempt could reach the expected goal state without encountering difficulties, a sufficient number of optimally motivated people is critical. Third, and most important, an achievement-driven change attempt is very pragmatic. People with higher *n Ach* level are very sensitive to progress in real term. If a change attempt cannot not improve a situation, they would adjust the course of actions or even change whole strategy to assure that bottom-line outcome will be achieved. Such an attempt is more likely to produce changes that can bring real benefit to the society and less likely that the outcome only has some decorative value or benefit a small portion of population. An optimal level of collective *n Ach* can be a critical factor for the success of any change attempt that is intended for real progress. For it assures that a change attempt is goal anchored and realistically defined



Then a practical issue is how to prepare a society with an optimal level of n Ach, if this critical condition is not available. The analysis of this study showed that Chinese society was underwent a sustained period for n Ach related transformation. CCP and Mao's efforts were instrumental in this regards. With the support of effective Party organization and through the persistent effort, the Chinese society was instilled a strong sense of n Ach. It was actually the psychological base for the success of various reform policies. For the development in other countries, the preparation for n Ach related condition may not reach the scale of China. Nonetheless, it can still be done in a smaller scope. Basically, there are several effective channels to enhance n Ach including the early childhood experience through cultural influence and parental practice. Thus, to incorporate n Ach related theme in daily activities by parents and communities can be an effective way to enhance n Ach and prepare conditions for sustained changes. Similar approach can also help individuals to raise the level of n Ach. It is critical that parents need to provide children with an achievement oriented environment through role-modeling, pressure for excelling, and forming behavioral patterns for excellence.

Popular participation and large scale development

One lesson from the development of Chinese rural enterprises is that the participation by the mass majority is critical condition for any large scale development. In 1995, there were 20 millions rural enterprises in China. This figure means that the population size of rural entrepreneur is greater than 20 million. The sufficient number of rural entrepreneurs was the solid base for Chinese rural enterprises to collectively reach a



huge scale. For so many rural people to engage in entrepreneurial activities, a necessary condition would be that the opportunities should be accessible by the majority of rural people. As discussed previously, a series actions by the CCP and Mao Zedong before the economic reform had prepared Chinese society with such a condition. By the eve of the economic reform, China was a highly egalitarian society. It did not have substantial gaps among various social groups in terms of economic and political powers. Though some gaps did exist, such as the gap between urban and rural, they primarily created difficulties but were not substantial enough to deprive rural people with the opportunities for entrepreneurial activities. The difficulties created by those moderate gaps actually had positive impacts on the development. They served as filters to screen out people who did not possess optimal personal characteristics required for entrepreneurial activities, such as a higher level of achievement.

The idea of access to opportunities has a broad implication here. On one hand, it means that the majority of people should have opportunities to act. In the development of Chinese rural enterprises, the shift of the CCP's policy priority changed the political condition in China and laid ideological foundation to legitimize entrepreneurial activities. Thus, after the economic reform, people were allowed to take actions to practice their entrepreneurial potential that were strictly prohibited previously. On the other hand, once people have the opportunities to act, they also need the supply of necessary resources to support their action. Because of various psychological and structural barriers in Chinese society, at the initial stage of development, it was much more difficult for Chinese rural entrepreneurs to obtain critical resources than to open a business. Nonetheless, numerous

formal and informal channels did exist that allowed rural entrepreneurs to obtain resources for their business, though they had to make extraordinary efforts.

From a research perspective, only if opportunities are accessed by the majority in a society, the presumed impact of other societal conditions on the development will be fully functional. It is assumed that a higher collective level of n Ach tends to associate with the faster economic development in a society. Apparently, such an association cannot be observed in a society where the opportunities for entrepreneurial activities were limited to a few privileged because those people are not sufficient in number to produce any evident changes. Therefore, if substantial development in a society or community is intended, opportunities have to be accessible by the majority of people. If such a condition is not available, it is necessary to reform the society so that the majority can have opportunities to act.

Quality of top management team and reform of state enterprises

The findings of this study demonstrated the importance of top management team to the success of a company. During my field work in China, a frequently used phrase by media and local officials in explaining the success of a company is: "having a capable person as the manager and the company got saved." The positive impact of n Ach on entrepreneurial performance is the direct evidence that the personal quality of management team significantly affect the business outcomes of a company. A potential field of applying this finding is the reform of China's state enterprises. The disappointing performance of state enterprises is a heavy burden for Chinese economy. There were



many attempts to reform this sector to make it competitive in the new economic environment but the progress was slow.

In explaining the problems of state enterprises, people primarily focused on the impacts of environmental rather than personal factors, for instance, the heavy welfare burden, the lack of autonomous in management, and the shortage of capital. Rural enterprises were often used as the scapegoat to explain away the trouble of state enterprises. Rural enterprises were blamed for competing unfairly against state enterprises over resources and market share. The causes of poor performance of state enterprises are complicate issues. They cannot be discussed here. While admitting the legitimacy of those explanations, the evidence collected in this study shows that the quality of top management team can be a determining factors of success. Unfortunately, few regarded this factor as a critical cause of problems.

I believe that a critical issue to reform state enterprises is to find competent people to form the management team of a company. The successful experience of Sunan Model should be an enlightening lesson in which the local governments of Sunan area selected and appointed competent people as managers and successfully improved business performance of rural enterprises. Since state enterprises are owned by the government, it should play an active role to select and train management teams to be competitive for the jobs. As the findings of this study suggest, in doing so, motive is the most important factor. If one is not motivated, he/she would not take necessary actions to turn situation around. As matter of fact, there were many state enterprises that stopped decline and became very productive. In most cases, the direct cause of a successful turn-around was a

highly motivated management team. While the structural issues are important in reforming state enterprises, more attention should be paid on how to find people who want to do their jobs well and let them do the jobs. Without properly addressing the people issue, it would be very difficult to revive state enterprises.

4. The future of rural enterprises

When I conducted the field work between 1994 and 1995, it had been 17 years from 1978 when rural enterprises started to take off and 11 years from 1984 when the full scale explosive development began. Since 1978, the growth in this section of nation's economy remained at an astonishing speed of about 40% annually (see Table 1.1). Obviously, such a speed cannot last forever. Thus, a question arises, what is the future of Chinese rural enterprises? Though future can never be exactly predicted, it is still possible to explore this issue based on the accumulated knowledge. Two topics will be discussed in this section. First, as a business grows, what changes would occur in terms of challenges faced by the management? Second, from a historical perspective, how long will rural enterprises remain as a distinctive form of economic activity?

Business life cycle and management priorities.

In my discussion with rural entrepreneurs, many complained that they felt more and more difficult in managing their companies. The familiar approaches that helped them to be successful entrepreneurs were no longer as effective as used to be. They also experienced growing pressure to act differently in the day-to-day operation of their

businesses. For instance, they could no longer take care of every aspect of business issue and had to learn how to delegate responsibility to others. The informal mechanism of communication and coordination could no longer maintain an effective production process. Formal rules and regulation needed to be established and followed. Furthermore, most entrepreneurs used to spend a substantial amount of their time and energy to deal with people outside their companies, such as customers, suppliers, and government officials. Now they had to spend more time within their companies to organize and coordinate internal activities. Facing these challenges, many rural entrepreneurs raised the issue of what they should do to keep the momentum of development.

One source of these pressures is due to the changing management priorities as a business grows, which impose different and unfamiliar challenges on rural entrepreneurs. The fact that Chinese rural enterprises grew at a high speed further intensified the changing pressure on rural entrepreneurs because they had to deal with many new challenges in a short period of time. Consequently, rural entrepreneurs found that they had to frequently adopt new strategies and approaches to operate their businesses. A major part of the management seminar I gave to rural entrepreneurs was about the development cycle of a business and management priority at each stage of development. In terms of the feedback from the attendants, entrepreneurs were mostly attracted by this part. It is a direct evidence that those rural entrepreneurs were in a new stage of business development and needed to adjust their management approaches.

From an evolutionary perspective, the life cycle of a business consists of several successive stages (Greiner, 1983). The priority of managerial activities varies with stages.

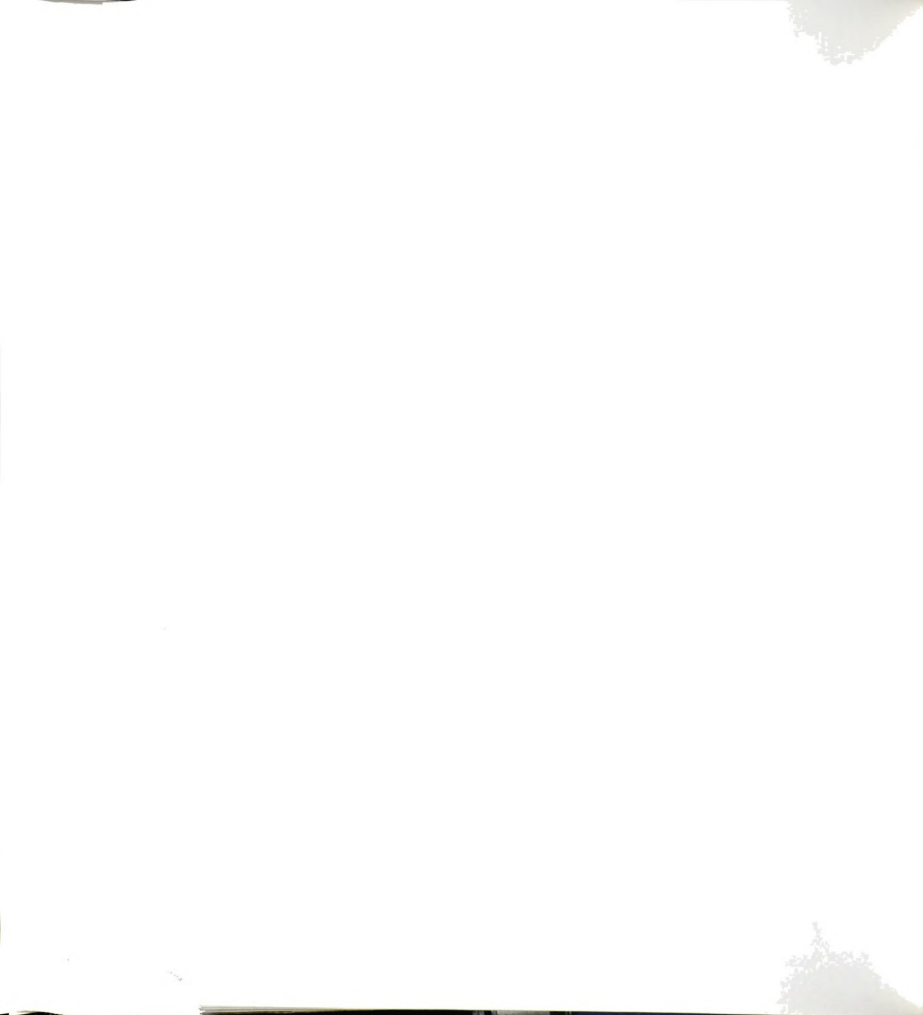


For instance, at the initial building-up stage, the management priority is primarily outward focused. A manager needs to spend most of his/her time and energy to work with people outside the company for the access to various resource, such as customers, capital supplier, technical assistance, and suppliers of raw materials. This outward orientation is structurally determined by the conditions of a business at the building-up stage. As a new comer, the first thing a company needs to do is to find a place to survive and develop. A newly established company was weak in almost all aspects. Thus, its survival and development is contingent on its ability to be highly responsive to the pressure of business environment. The internal operation of a company at this stage is usually dictated by the need for responding to short-term external demand rather than guided by its own agenda. Consequently, a manager needs to refrain himself from spending too much effort on the actions aimed at the long-term interest because the weak strength of a new business cannot absorb the cost associated with such effort. Then after passed the building-up stage and entering growing stage, a business has accumulated strength in terms of the channels to various resources, fixed assets, and the knowledge of business operation. Compared with that of the initial stage, at the growing stage, the managerial activities will be more inward looking and have a long-term focus. The priority is to utilize the accumulated strength more effectively and efficiently. Consequently, a manager needs to spend a substantial amount of personal resource to improve and streamline the internal process and structure to achieve this goal. Also a manager needs to pay more attention to the long-term goal of business and take proper actions to guide the development accordingly. For a business of a significant strength, it would be

economically inefficient to let short-term opportunities to dictate its operation and frequently shift direction.

The development of Chinese rural enterprises followed the similar pattern as well. A close look at rural entrepreneurs' complains reveals that many of their difficulties were related to the transition between business development stages. The incompatibility between the current management approaches and the requirements of new stage was the main source of pressure. For instance, many rural entrepreneurs were troubled by losing customers because their companies could not deliver quality products in a timely fashion. One reason for low production quality was that the informal mechanism of coordination was incapable of organizing large scale production. Many entrepreneurs told me that they used to be able to cover all aspects of their businesses. Now, they frequently overlooked some key aspects and caused big troubles. A distinctive feature that characterized the management activities of entrepreneurs was spontaneous rather than rule guided actions. For most enterprises at the early stage, the regulations for systematic production process either did not exist or were not enforced. Now those entrepreneurs felt the pressure that they had to follow the formal rules in managing their businesses. This is a tough requirement because entrepreneurs by definition are people who would not follow pre-imposed rules. They would rather act upon the opportunities they see. Nonetheless, to establish formal procedure is a critical condition for efficient business operations when a company grows big.

As discussed in Chapter Nine, the development of rural enterprises during the 1980s was characterized by the phenomenon of "A small boat is easy to turn around." It



used to be cheered as the evidence of a major strength of rural enterprises that they were highly responsive to the market conditions. Then in mid-1990s, at the time of my field work, people started to question the benefit of frequent change of production direction. This practice became less cost effective when a business grows to a large size. In mid-1990s, many companies had already passed the initial build-up stage and were well-established. Under such a condition, if a company adjusted its direction frequently, it would incur substantial loss to the existing build-up and cannot maintain the process of accumulation. As result, people started to talk about "building a big ship to withstand the storm." It means that the operation of a well-established business can be more independent of external pressures and increasingly follow its own development agenda.

Chinese rural entrepreneurs felt strong pressure for adjusting management strategy and approach also because of high speed growth in this section. In the West, the process of industrialization lasted for several hundred years. Thus, the adjustment to changing management priority was an issue between generations. Nonetheless, the several hundred years of industrialization process in the West was reduced to about 10 years in the case of Chinese rural enterprises. For many rural entrepreneurs, the history of their business was only seven or six years long and growth during such a short period is phenomenal.

Apparently, if an entrepreneur could not adjust management approaches and keep up with the speed of change, it would be very difficult to be competitive in the market. Thus, for Chinese rural enterprises as a whole to maintain the momentum of development, collectively, the entrepreneur group should be able to change their management approaches accordingly when management priorities shift.



A phenomenon under unique historical conditions.

As long as rural entrepreneurs can adjust their management approaches properly according to the changing business requirements, the future of Chinese rural enterprises should be bright. Unfortunately, the phenomenon of rural enterprises may not live long. Rural enterprises are the result of several unique social, cultural, political, economical, and psychological conditions in Chinese society. Once those unique conditions change, this phenomenon will no longer exist. During my interview, I found that many well established companies had already broke the local boundary and become an integrated part of economic activities in a broader scope. They started to lose their unique characters as rural enterprises. For instance, Hengan Woman Product Company in Anhai Township of Jinjiang City had branch companies in many provinces in China. When discussed with the Anhai officials about the local companies, they would not consider Hengan Company as a local business because it had presence in many other places.

More importantly, the concept of rural enterprises cannot last long because people are changing. In Chapter One, a key character to define a company as a rural enterprise is the type of people involved. An enterprise was rural because people involved were rural. Obviously, if people involved cannot be called rural anymore, a company would no longer be a rural enterprise. As the economy grew, the distinctive features that characterized rural people were disappearing. A most critical change was that many rural entrepreneurs and labor workers had completely left agricultural production that was a key indicator of rural. Furthermore, people's life styles became more urban. In places



where rural enterprises were highly developed, people could hardly connect the view with the familiar concept of rural areas. What they saw were typical urban scenes. Mao's dream of "narrowing the gap between rural and urban" was literally came true in those areas.

It could be expected that as a unique phenomenon, the phenomenon of Chinese rural enterprises will become a history in the near future. Nonetheless, the material wealth they generated will benefit the nation for a long time to come. Many enterprises will continuously make their contributions as integrated players of the nation's economy. The great contribution they made to the development of China will be remembered forever.

5. Final words

The success of Chinese rural enterprises shakes the traditional views that rural areas are backward and conservative, and rural people are close-minded and resist to changes. It shows that great progresses can be initiated and achieved in so-called backward areas and by so-called traditional people. Collectively, rural enterprises helped to maintain the development momentum of Chinese economy when the majority of state owned enterprises were operated in red. It is not exaggerated that a great portion of today's Chinese economy is built upon the wealth contributed by rural enterprises. As the projected government statistics showed, while Chinese economy struggled to overcome the difficulties triggered by the Asian financial crisis and maintain 8% annual growth rate, the growth of value added by rural enterprises would be 18% in 1998 (People's Daily (Overseas Edition), 9.26.1998:1). When people were impressed by the numerous modern

constructions in urban areas and grandiose infrastructure projects, they should not forget that these projects were supported by the shoes, clothes, toys, and small electronic goods produced in the numerous workshops through out the vast countryside of China.

Without the contribution of Chinese rural enterprises, the nation can be overwhelmed today by various social and economic problems, such as heavy pressures on the urban infrastructure for absorbing the migrating people, employment opportunities of agricultural surplus labor, and capital accumulation for economic growth. Because of the success of rural enterprises, on one hand, the magnitude of those problems is significantly reduced. On the other hand, the nation's power to deal with those problems was significantly enhanced. At present, the unemployment of state enterprise workers and government officials is a very serious problem in China. To avoid potential social unrest, the government is very cautious in dealing with this issue. If compared with the situation of rural surplus labor, the problem of urban unemployment is actually not so severe. Nonetheless, the rural unemployment problem has been significantly alleviated by rural people themselves. If the government had to assume the full responsibility on this issue, it is not hard to imagine how heavy that burden would be. For this achievement alone, Chinese rural enterprises and those who contributed in the process should be greatly respected.

Furthermore, Chinese rural people were the key players in several major events of the contemporary Chinese history. They were instrumental in the making of two miracles that changes the nation substantially. First, Mao correctly understood the power of Chinese peasants and proposed the famous strategy of Chinese revolution: "Establishing



base in rural areas, surrounding the city from rural areas, and finally take over the cities." (Mao, Vol.5, 307). With the full support of rural people, the CCP successfully established a new China and freed the nation of foreign interference experienced by China since The First Opium War in 1860. A truly independent nation was a critical condition for any effort of autonomous development. Chinese rural people were the heroes for this achievement.

The extraordinary success of rural enterprises represents another major contribution by Chinese rural people. If we consider their first great contribution as to win the political independence for the nation, then the second one was to significantly strengthened the foundation of economic independence for China. Before the economic reform, thirty years' persistent effort by the CCP helped China to establish an economic base of respectable strength. Nonetheless, this base was still too weak to realize the dream by generations of Chinese. Though China successfully maintained its political independence in the world, her weak economy put the nation under the constant external threat. More seriously, there were signs that the existing economic system had exhausted its growth potential and was on the edge of decline. Then followed the Party's rural tradition, Deng Xiaoping rightfully adopted policies that returned economic autonomy to rural people. With the newly obtained freedom, Chinese rural people once more demonstrated their power of moving the nation forward. The development of Chinese rural enterprises generates huge material wealth which sustains the growth of the nation's economy. Rural people also changed China's economic structure substantially and put the nation in a sustainable and healthy path of development.

Although it is not the focus of this study, there is evidence that a third miracle may be in the making by Chinese rural people. With the encouragement of Chinese government, Chinese rural people are forming the grass-root government body through direct election. Their actions may reform the political structure of Chinese society fundamentally. Though the impact of their actions is not evident at the moment, given the power demonstrated by rural people in the first two miracles, they may once again change China into a brighter future.

Appendix A

A sketch of the three main research sites:

**Jinjiang City, Wujiang City, and Tongliang and Dazu
Counties.**

The main research sites of this study locate at different parts of China and are distant from each other. Map 1.1 shows their positions. Those places differ from each other in terms of natural condition, cultural tradition, level of economic development, and so forth. They also differ significantly in the development of rural enterprises. Table A.1. to A.5. compared major economic indexes of those three sites.

Jinjiang City

Jinjiang City used to be Jinjiang County, which was established during Tang Dynasty in 720 A.D. The county level city status was acquired in March 1992. It locates at the southeast coast of Fujian Province and faces Taiwan Province across Taiwan strait. Within Fujian Province, Jinjiang belongs to Quanzhou City, which is at the prefecture level. In terms of China's administrative system, the prefecture level is above the county level and below the provincial level. Jinjiang City has the area of 903.11 square kilometers and a population of about one million people in 1991. Among 15 townships in the city, the author visited seven of them, Qingyang, Anhai, Chendai, Cizao, Dongshi, Shenghu, and Yinling Townships in November and December 1994. The nearest major



cities are Fuzhou City, the capital of Fujian Province, about 170 kilometers north, and Xiamen City, a major port and education center, 80 kilometers south. Jinjiang City was a key forward post during the military stand-off between mainland government and nationalist authority of Taiwan before 1980. The nationalist controlled Big Jinmen Island is only about five miles away from the shoreline.

Before the economic reform, Jinjiang could be considered as a pure agricultural area. The major agricultural products were sweet potato, rice, peanut, and soybean. Tropical fruits, such as longan and sugar cane, were the major products too. As I learned at the Conference on Rural Development, held in Jinjiang in 1994, the local grain output never reached the level of self-sufficient. In 1978, it had arable land of 528,926 mus. Per capita farmland was 0.56 mus (0.01 acres) in that year. Agricultural surplus labor was always a serious problem. Although it is a city by sea, the fishing industry was not well developed. In 1978, the fishing outputs were only 33.36 million yuans. In a broad sense of agricultural economy (crops, forestry, fishery, and sideline production, etc.), it only accounted for 15.6% of total output. Jinjiang's industrial base was very weak before the economic reform. The only two major industrial enterprises were sugar mills. In 1978, the gross industrial output was 106.2 million yuans whereas the gross agricultural output was 115.1 million yuans. Then since 1982, as the result of developing rural enterprises, the industrial output took the lead over agricultural production. In 1987, the former was 1,129.7 million yuans and the latter was 539.0 million yuans. Jinjiang City was also among the top 100 economic star counties (or county level cities). There were 2353 counties or county level cities in China.



Historically, Jinjiang City was an area of both immigration and emigration. During the West Jin Dynasty (200 A.D.), to escape wars, people moved to the coastal areas from the central China. Jinjiang was a major destination of the movement. Jinjiang in Chinese means "Jin River." It got the name because those people from the central China found the scene was similar to that of their previous homes. Later, it became the name of Jinjiang County. It is similar to that the immigrants from England named the northeast region of the US as New England. Since then, the movement of people to the coastal areas never stopped because wars always happened. Today, Jinjiang people still have strong senses of their roots in the central China. While walking around residential areas, one could see that almost every house had a stone inscribe above the main entrance indicating the place of central China from where owners' ancestors came.

The movement of Jinjiang people did not stop at Jinjiang. As more people moved to the coastal areas, the shortage of heritable land became increasingly evident. Too many people and too little land was a persistent problem in the coastal areas of Fujian and Guangdong since Song Dynasty (1100 A.D.). To search for better life, people in those areas continuously spread to other places. For Jinjiang people, there were two major destinations. One is Taiwan Province. The large scale migration to Taiwan Province happened from the end of Ming Dynasty to the middle of Qing Dynasty. The current statistics shows that there were about one million Jinjiang origin people in Taiwan Province. The other destination was the southeast Asia, particularly Philippine and Hong Kong. The statistics show that four former presidents of Philippine had Jinjiang blood. Overall, there were about one million overseas Chinese around the world who had

Jinjiang origin. Combined with about one million people in Jinjiang City, it was so-called “three Jinjiangs” in the world. In terms of entrepreneurial activities, migrants are more likely to enter entrepreneurial occupation. This trend is understandable because the desire for better life is a primary driving force for people to migrate. Such a desire is consistent with the core of need for achievement.

Started from Tang Dynasty (618-907), Jinjiang area became the most important trading port of China. Its prosperity lasted until the early period of Ming Dynasty (1368-1644) when the Emperor banned the trade through the sea. During its heyday, merchants from India, Persia, and Arabia flocked in the area. They brought in rare spicy, lumber, and jewelry. Silk and China were two major exporting items. The trading activities also brought different cultural and religious tradition to this area. A unique phenomenon of Quanzhou area, to which Jinjiang belongs, is the great variety of religions. Also people were very flexible in accepting different religions. When I visited a museum in Quanzhou, there was a special collection of tombstones. On many tombstones, the signs of Confucianism, Taoism, Muslim, Catholic, and other religions are inscribed together. This phenomenon is rarely seen in other areas. It suggests that people in this area have the tradition of being open to new ideas.

A consequence of the long trading history is the mentality of commercial activities. Even after the Ming government issued the ban, people still keep the trade activities alive through smuggling. The unauthorized trade was so widespread that the Ming Emperor had to lift the ban in 1572.



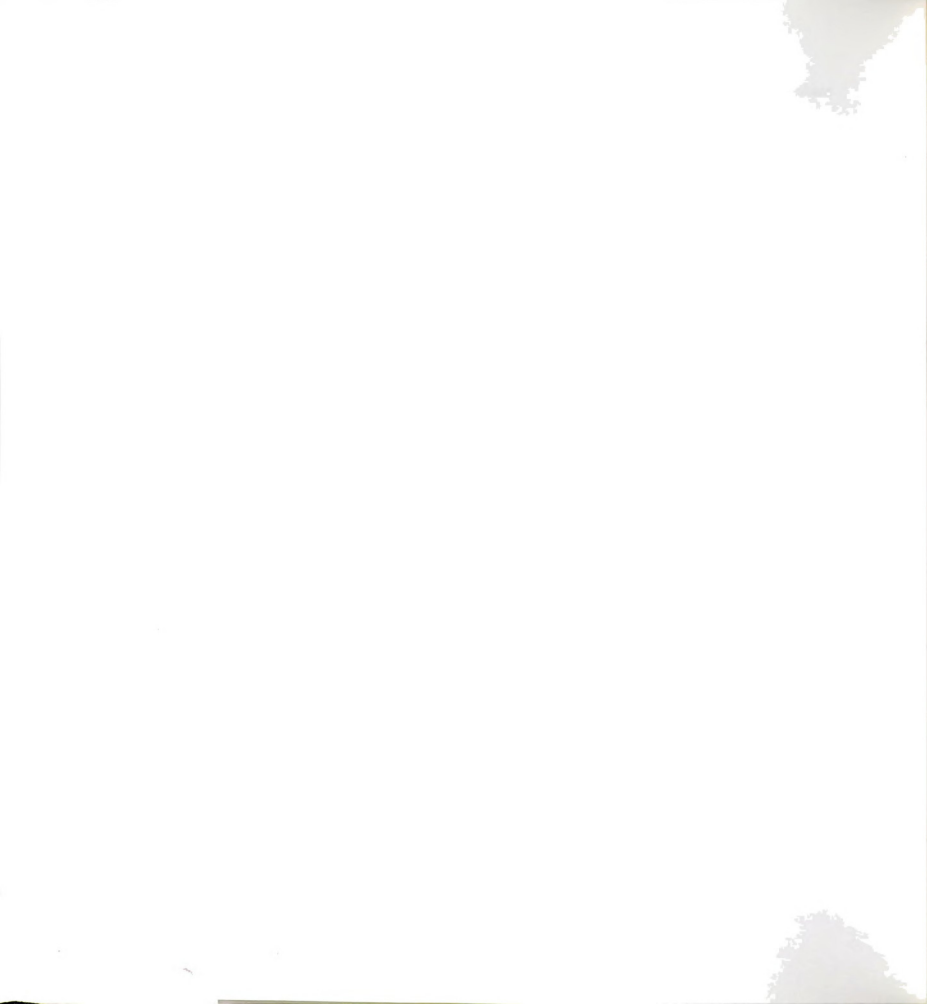
Several key characteristics were important to understand the development of rural enterprises in this area. First, before the economic reform, Fujian Province, in which Jinjiang City located, was an economically underdeveloped area. After the CCP controlled the mainland China, the nationalists fled to Taiwan Province. Then Fujian Province became the front-line of the military stand-off between the two sides of Taiwan Strait. As result, it was intentionally left underdeveloped. Until the early 1980s, there were few significant development projects invested by the central government in this area. Thus, Jinjiang rural enterprises were developed in an area with little existing industrial and commercial build-ups. By contrast, the rural enterprises in Zhujiang Delta area benefited greatly from their close distance to Hong Kong. Those in Yangtze Delta area could take advantage of Shanghai and other major industrial and commercial centers in the region. Jinjiang companies were primarily on its own. Rural enterprises in Wenzhou City, the home of Wenzhou Model, were in the similar situation. The two nearest major cities, Fuzhou City and Xiamen City, did not have substantial capacities as regional industrial and commercial centers to lead the development in the adjacent areas. Also transportation conditions used to be very poor. Thus, the links between Jinjiang and those two cities were weak. One character of Jinjiang rural enterprises was that they had little connection with neither state enterprises, as those in Yangtze Delta area did, nor the overseas companies, as those in Zhujiang Delta area did.

Another important phenomenon was the persistent private entrepreneurial activity in this area, even at the time when such activities were considered as anti-socialism and illegal. During the late period of cultural revolution, the widespread private enterprises



made Jinjiang a prominent target for political attack. For instance, in 1975, the movement of "cutting capitalist tail" sent hundreds of entrepreneurs to jails. The movement also revealed that there were more than one hundred entrepreneurs whose personal assets were over 10,000 yuans. That was a huge sum of money then. In 1976 and 1977, the anti-smuggling movement was another hit to Jinjiang's economy. Then it followed the movement of "striking the new capitalist" in 1978 and 1979. The "Jinjiang fake medicine incident" in 1985, which was publicized nationwide, was considered as the latest attack on the private businesses. At the conference of rural development, people told me that in Fujian Province, whenever the government needed a target to criticize capitalism, Jinjiang was always a handy target. Nonetheless, those incidents also suggested a strong undercurrent of entrepreneurial enthusiasm in this area. It explained why so many individuals involved in entrepreneurial activities once the local government created favorable business environment.

The third phenomenon to discuss is Jinjiang people's willingness to invest in manufacture business rather than lie on the money and enjoy life. First, people would constantly make effort to improve rather than satisfy with their current situations, even after they had made a lot of money. Second, they would take some risks in business activities by investing rather than saving. A joke in this area was that if a Jinjiang person had one thousand yuans, he would borrow another one thousand yuans to do a two thousand yuan business. For people in other area, they would save five hundred yuans and do a five hundred yuan business. Although Jinjiang has strong connections with overseas Chinese, the overseas capital did not have a strong presence in rural enterprises. Many



entrepreneurs and local officials indicated in private that many companies of Zhujiang Delta area were owned by Hong Kong business people. In Jinjiang, businesses were primarily operated on local capital and owned by local people. Many joint venture companies with foreign capital were in name only. The purpose to create fake joint ventures was to take advantage of government policies that offered favorite treatment. In the official version of explanation, rural enterprises in Jinjiang area started with "three spares due to people's overseas connection (money, people, and houses)", progressed with "three supplies (subcontract with and produce goods for foreign companies which supply materials, samples, and parts) and one complimentary trade (Purchase equipment and technology from foreign companies on seller's credit and then payback with the products in a given period of time)," and developed with manufacturing business. On the other hand, local people told me that the initial seed capital was actually from smuggling. Then through trading smuggled goods. The third stage was the same as the official explanation, accumulation through manufacturing activities. Many entrepreneurs I interviewed had the experiences of smuggling. Nonetheless, people in many places along the coastal region smuggled but few places the manufacturing companies flourished as what happened in Jinjiang City. My brother-in-law worked in Shengzheng City that shared the border with Hong Kong. He told me that many local people also made fortune through smuggle but very few of them started their own manufacturing businesses. Those differences are evidence of strong entrepreneurial orientation in this area.

In terms of the development of rural enterprises, Jinjiang City is the home of famous Jinjiang Model. This model is famous for several reasons. First, the joint-

household businesses were predominant forms. It is a disguised form of private ownership, a creation of local people and encouraged by the local government. The local officials explained that private businesses were those owned by single owners. If owned by several owners, then a business was collective ownership. In practice, a company jointly owned by a father, a son, and a daughter can be called a joint-household business as well because the owners are three families. Using such an explanation, many restrictions on private business can be removed. In 1981, the local government issued an important document that allowed companies to hire workers with no limit, pay individuals dividends, and pay commission to sales persons. Since then, the joint household enterprises grew rapidly in Jinjiang.

Another character was that Jinjiang Businesses targeted at national and international market for development. As just mentioned, the local economic base was weak and could not absorb a large amount of manufacturing good. To sustain a large scale development, rural enterprises had to serve a broader market. In doing so, Jinjiang's connection with overseas Chinese played a significant role. The most important contribution, in terms of conversation with the local entrepreneurs, was the channel of information about the world fashion trend, particularly in the Hong Kong market. The channel to the international market was another important contribution of overseas Chinese. Because China closed itself from the rest of the world for a long period, the novel appearance of foreign good was very attractive to the consumers. In response to this demand, the Jinjiang companies imitated the style of foreign good and marketed their products nationwide. The overseas relatives were instrumental in supplying the

information on the international trend. Many local people told me that if a new style of clothes, shoe, or other small commodities appeared in Hong Kong market, one or two days later, the similar looking product would appear in Jinjiang's market. This strategy was very successful at the initial stage of development. Consequently, the Jinjiang made products at one moment were called "The domestically made imported goods"

Wujiang City

Wujiang City was Wujiang County before 1992. It acquired the county-level city status in 1992, the same year as Jinjiang did. The county status was first acquired in 909 A.D. during Later Liang of Five Dynasties Period. It locates at the south end of the Yangtze Delta region in Jiangsu Province and belongs to Suzhou City, which is at the prefecture level. Wujiang shares the border with Shanghai City, the largest commercial and industrial city of China. It is 70 kilometers from the nation's largest port, Shanghai Port. In 1994, it had the area of 1,176 square kilometers and the population of 0.777 million. It had 820,000 mu farmlands. Per capita farmland was 1.02 mus. Like Jinjiang City, Wujiang was among the top 100 economic star counties in the nation. I visited Wujiang City twice. One was in October 1994. Second time was in May 1995. Among 23 townships in Wujiang City, the author visited seven of them, Meiyuan, Baisu, Wanping, Taoyuan, Shengze, Tongli, and Songling Township. Shengze Township was known as "the No. 1 township in China" because its economy ranks the No. 1 among all townships in the nation.

The Yantze Delta region is the most prosperous area in the contemporary China, judged by its economic strength, cultural advancement, and the quality of labor force. As suggested by the popular saying: "Suzhou and Hangzhou, paradise under heaven." With Shanghai City as the center, there are many secondary commercial and industrial cities with significant strength, such as Suzhou, Wuxi, Nanjing, Changzhou, Zhengjiang, Nantong, Yanzhou, Hangzhou. Those cities are all in close distance from Wujiang. Unlike Jinjiang Area which was hit severely by the ban of trade through the sea, this area remains prosperous since Song Dynasty. By the end of Ming Dynasty, there were signs of emerging modern capitalist production in its silk industry. At that time, many large scale silk mills in the Suzhou area engaged in commercial production. Those factories hired hundreds of full-time workers and equipped with hundreds of weaving and knitting machines. Unfortunately, the emerging process of modern industrial production was interrupted by Qing Dynasty. It reenforced rigid Confucius doctrine as a mean of strengthening its power base. Commercial production is not compatible with those teachings.

In the contemporary Chinese history, Wujiang was the most important silk producer in China. Shengze Township is the center of its silk industry and known as one of the four silk capitals of China (The other three are Shuzhou, Hangzhou, and Huzhou). Because many wars inflicted heavy damages on other major silk producing areas, many silk businesses move to Shengze that suffered lightly. By the end of Qing Dynasty, its silk production and the number of weaving machines were all numbered the first among major silk producing areas. The tradition of silk production is still very strong to the



present. In 1997, its silk production and export were one eighth and one sixth of the national total. 60% of the local government revenue was from silk related business.

For the development of rural enterprises, Wujiang belongs to the famous Sunan model. In a narrower sense, this model covers the area of Suzhou, Wuxi, and Changzhou, including twelve county level administrative. This is the largest model of rural enterprise development, judged by the area covered and the strength of economy. Compared with other models, such as Jinjiang Model, Wenzhou Model, and Gengche Model, there are several distinctive features of Sunan Model. First, this area has the longest continuous development of rural enterprises. Started from the great leap forward, the rural non-agricultural production has been an active component of its economy. Among companies surveyed in this study, more than one-third (27) were established before 1980. By contrast, none of 60 Jinjiang companies surveyed was established before 1980. Second, in China, rural enterprises first showed significant growth in this area after the economic reform. The Sunan area is called as the pioneer of rural enterprises. Wuxi County is the star in this model. The annual output of its rural enterprises has been ranked No. 1 since 1970. Third, the dominance of collective business is a distinctive feature that separated this model from others. Local officials made great effort to assure the development of collective enterprises. When I visited Wujiang City, the neighboring Zhejiang Province privatized its rural enterprises. Taoyuan Township shared the border with Jiaxin Prefecture of Zhengjiang Province. One could see the scene that at one side of a tiny creek, businesses were all collective ownership. Then on the other side, businesses were all privately owned. Facing this situation, Wujiang officials told me that they wanted to

see which form of business could perform better, private or collective businesses. They were also very confident that their system was much more superior to their neighbor's. The dominance of collective ownership partially explained why rural enterprises in China showed significant growth in this area first. Politically it was less in conflict with the previous government policies that emphasized the socialist nature of economy. To accept private enterprises deviated too much from the previous policies. Although the development of rural enterprises in this area triggered criticism too, the conflict was primarily on whether planned or market oriented economy should be developed. Ownership issue was never a topic of controversy to Sunan model. By contrast, the attack on Jinjiang rural enterprises was primarily on ownership issues. Finally, because Yangtze Delta area has many industrial and commercial centers, the development of rural enterprises in this area benefited greatly from the urban economy for the supplies of various resources, such as material, technology, technical personnel, marketing channels, and so forth. "Horizontal cooperation" with state enterprises was a major form of business. In Jinjiang City, few companies had ties with state enterprises. In terms of material condition, Wujiang rural enterprises were at a better position compared to their Jinjiang counterparts.

The statistics showed that among the original eight county level cities belonging to Suzhou City, Wujiang ranked 6th in 1978 in terms of total industrial output by rural enterprises. In 1992, it was still ranked 6th although the absolute value increased substantially, from 108 million yuans to 10,702 million yuans. This phenomenon



suggested that the development progressed evenly among the cities (or counties) covered by Sunan model. All places achieved significant development.

Another unique feature of the development in this area was the strong presence of local government. Although Jinjiang and Wujiang governments all made great efforts to support the development of rural enterprises, the impact of Wujiang Government was much more visible. My first impression about Wujiang was that there was a strong hand managing everything in the local community. Whereas Jinjiang City represented a scene that everyone shouted to determine whose voice was the loudest. The impact of Wujiang government not only reflected in business development, it existed everywhere. All evidences showed that Wujiang had a well-managed development.

For instance, because of local government efforts, agricultural production was well maintained. Rice and wheat are major crops of Wujiang. Silk cocoon raising and mulberry growing are also the major agricultural activities as the results of its silk producing tradition. While traveling with Wujiang City, I did not see any abandoned farmland, as long as it was not taken for industrial use. During my stay in Wujiang City, I also took bus to visit Hangzhou, a famous tourist city in China and the capital city of Zhejiang Province. It is about 113 kilometers from Wujiang. By contrast, once the bus crossed the border of Wujiang City and entered a locality of Zejiang Province, the abandoned farmland was everywhere. Jinjiang City also had a great amount of abandoned farmland. The local government recognized this problem as well. My relatives in Wujiang told me that the local government made great effort to assure that farmland would not be abandoned. If one did not take care of his land, then the village government

would have other people to manage the land. The person who abandoned land would be fined and pay the cost of having other people to manage his land.

The second example was that Songling Township, the seat for Wujiang government, was the cleanest place I saw during my one year stay in China. The place was so clean that people would not believe it used to be rural area. I could hardly find a piece of paper dropped on the street. When I met with the local officials, I asked how they managed to keep the town so clean. They replied that there was a nationwide movement of "building civilized city." The government at every level responded to the movement seriously and took actions to keep the town clean. Nonetheless, although this was a nationwide movement, I did not see other towns or cities that were able to maintain a clean environment. While rapid economic development in other areas of China often led to many problems in maintaining social order, the situation in Sunan area was very good. The social order was well maintained in Sunan area as the economy grew rapidly. At night, it was safe to walk on the street in every town I visited there. However, many people advised me not to walk on Jinjiang streets during the evening because the crime rate was high. The last example of a well-maintained social order in this area was that at the train stations of Suzhou, Wuxi, Changzhou, people had to form lines on the platform to aboard a train. It really surprised me because I could never see this in other places.

Tongliang and Dazu Counties

Tongliang and Dazu Counties used to be part of Sichuan Province and belong to Chongqing City, which was a provincial level city. In the administrative system, that level



is higher than a prefecture but lower than a province. In 1997, Chongqing became a city directly administered by the central government. It became a provincial level administrative entity and separated from Sichuan Province. Dazu and Tongliang counties still belong to Chongqing City. In terms of the distance to the nearby major cities, Tongliang is 60 kilometers from Chongqing City and 300 kilometers from Chengdu City, the capital of Sichuan Province. Dazu is 70 kilometers from Chongqing and 269 kilometers from Chengdu. These two counties share borders with each other and locate at the northwest part of the greater Chongqing area.

When I visited Tongliang and Dazu in January 1995, there were plans to convert Dazu and Tongliang to county level city status. People even prepared the new city names. I remember the new name for Tongliang was Lianglong. Long in Chinese means dragon. Tongliang is famous in China for producing puppet dragons used in traditional Chinese dragon dance. However, shortly after returned to the US, I learned that the plans were abandoned. That was in part because of the relatively low level of non agricultural production in these two counties. Jinjiang and Wujiang acquired county level city statutes because industrial production in these two places was highly developed and far surpassed agricultural production. For instance, in Tongliang, the annual industrial output surpassed agricultural output the first time in 1993. By contrast, Jinjiang City passed that mark in 1982.

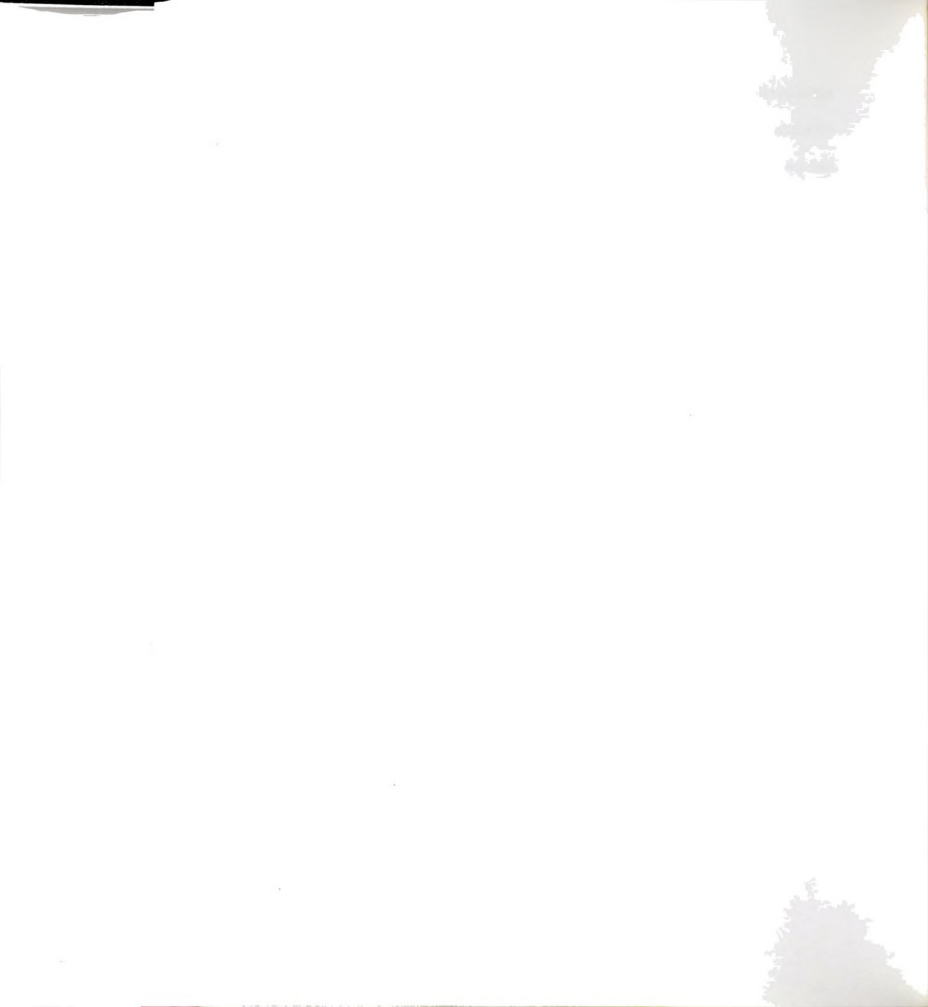
Tongliang acquired county status during Tang Dynasty in 704 A.D.. In 1993, it had the area of 1,334 square kilometers and the population of about 800,000. It had 0.9 million mus of farmland. Per capita farmland was 1.2 mus in 1985. Tongliang is a typical

agricultural area. The major grain crops are rice, wheat, corn, and sweet potato. Tea and oil seeds are also the major agricultural products. Tongliang is also an important silk cocoon producer in Sichuan Province. The highest production record was 3,345 metric tons in 1983. In 1992, the output was 2,776 metric tons, ranked No. 7 in Sichuan Province.

Dazu first acquired the county status during Tang Dynasty in 758 A.D.. In 1993, it had the area of 1,390 square kilometers and the population of about 880,000. Per capita farmland was 0.85 mu in 1985. Dazu has the similar agricultural structure as Tongliang's. Rice, wheat, corn, and sweet potato are four major grain crops. However, its silk cocoon outputs were significantly less than that of Tongliang. In 1985, its silk cocoon output was 500 metric tons, one sixth of Tongliang's output in the same year.

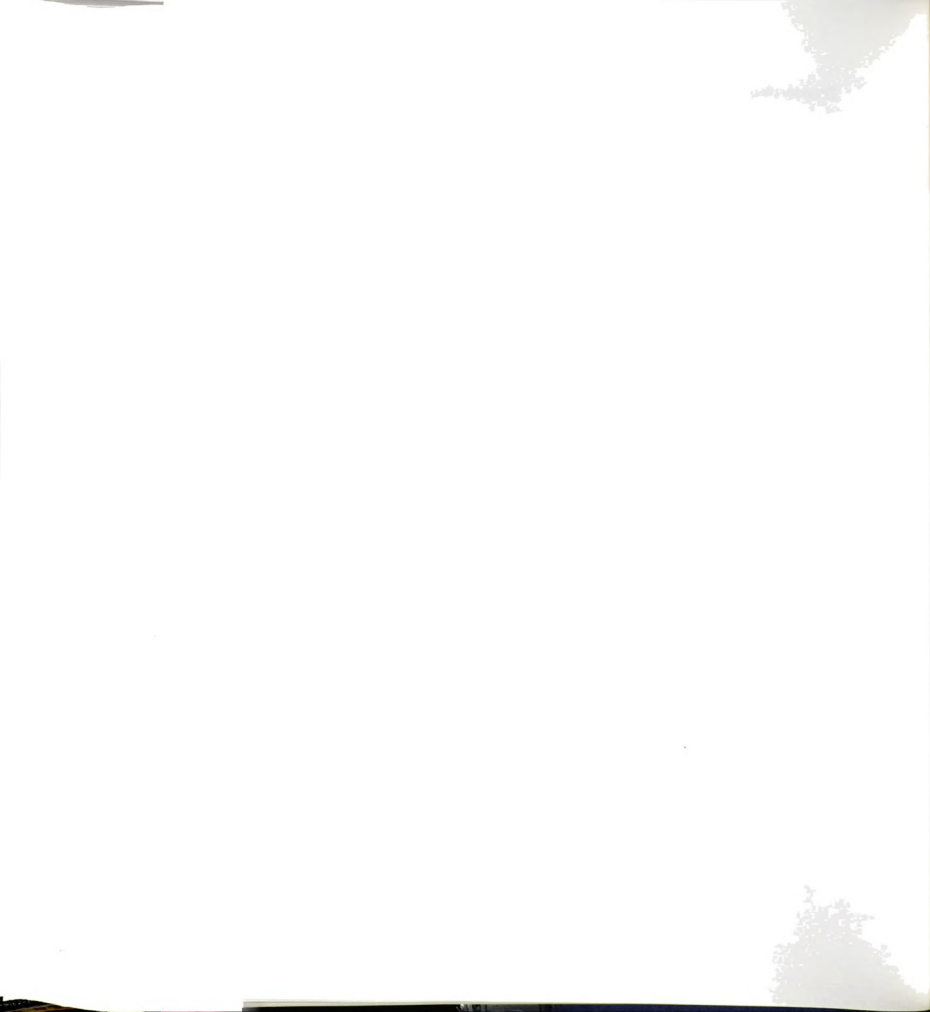
In terms of industrial production, Tongliang, Dazu, and Jinjiang were at the similar level before the rapid development of rural enterprises started. In 1978, the annual industrial output was 63 million yuans in Tongliang and 92 million in Jinjiang. In 1979, Dazu's industrial output was 64 million yuans. On the other hand, Wujiang City was in a better position. In 1978, just the industrial output of its rural enterprises reached 108 million yuans. If the output of state and county enterprises, the number should be much higher.

Dazu County is famous nationwide for its Buddhist rock carvings which are important cultural and religious treasures as well as valuable tourist resources. The rock carving activities started in the early period of Tang Dynasty (618-907 A.D.) and lasted for 1200 years until the early nineteenth century. It reached its heyday during Song



Dynasty (960-1279 A.D.). Many rock carving products are masterpiece art works. In relation to the rock carving activities, Dazu has a long history of small metal tool production. Longshui Township is the center of this tool producing tradition. According to the former Party secretary of Longshui Township, "the metal tool production started, then followed by the rock carving." This tradition had a significant impact on the local economy. In Longshui Township, there was a huge market for all sorts of small metal tools, traditional kitchen tools, and other small household hardware. In 1994, the annual transactions of that market reached about three hundred million yuans. An interesting story I learned was that the market opened two days in every three days. I asked locals officials why not open every day since the business was very good. The answer was that people did not take one day off. Instead, they had to use that day to produce tools and other hardware. If the market open every day, they would not have time to make products. Apparently, this means that the production of small metal tools was still at more primitive stage as well as the commercial activities, compared with the business activities in the coastal region. In Jinjiang and Wujiang, there were also specialized markets, for instance, silk, garment, and small household products. Those markets opened every day. Also the production and trading activities were specialized. Production and marketing are two separate functions carried by different people. In Dazu, the division of labor was still less sophisticated in the production of small metal tools. That was an evidence about the relative primitiveness of local economy in this area.

The agricultural production appeared to be well maintained in Tonglaing and Dazu. While traveling around in these two counties, I rarely saw any abandoned



farmland. As a matter of fact, What I was most impressed by in Tongliang was the extremely efficient use of farmland. Almost every piece of usable land, no matter how tiny it was, was planted. Such a devotion to the efficient use of land was a clear sign that the peasants in this area were very hard working and creative.

Though not as significant as in Wujiang, the state enterprises had some impacts on the development of rural enterprises in Dazu and Tongliang. Several major companies were either suppliers to or receive technical assistance from the state enterprises in Chongqing City. Unlike Fujian Province, which was in a front-line position of military conflict, Sichuan Province was considered as a strategic retreat area for China in case of a war. Thus, the central government made great effort to strengthen the economy in this area. Many manufacturing enterprises were transferred to or built in this area before the economic reform. In the greater Chongqing area, there were many large scale state manufacturing enterprises. However, because Tongliang and Dazu were in the remote region and transportation conditions were difficult due to the mountainous landscape, the support of state enterprises was not an important advantage of development.

Apparently, rural enterprises in Tongliang and Dazu were less developed, compared with the achievement of Jinjiang and Wujiang. As discussed in Chapter Nine, there were objective difficulties for development, such as less favorable geographic location and poor transportation conditions. However, the local governments were also less liberal in creating favorable business environments. In Tongliang County, not until the summer of 1994, many unreasonable restrictions on business started to loose. In terms of material conditions, at the early development stage, rural enterprises in Wujiang City

were in better positions than those of Jinjiang, Tongliang, and Dazu. However, Jinjiang enjoyed advantages of strong connections with overseas Chinese and being close to sea. Tongliang and Dazu were in the least favorable conditions.



Table A.1. Annual gross output value of rural enterprises (in million yuans).

	Jinjiang	Wujiang	Tongliang	Dazu
1977	32.8m		5.8m	11.6m
1978	31.3m	108.0m	15.2m	20.7m
1979	72.7m		16.2m	20.5m
1980	124.6m	263.7m	19.9m	25.1m
1981	141.4m		24.6m	27.7m
1982	169.6m		34.4m	34.6m
1983	217.8m		52.9m	48.1m
1984	509.9m		99.0m	81.3m
1985	662.8m	1235.4m	110.0m	140.0m
1986	763.6m		182.6m	192.4m
1987	1014.4m		236.3m	240.6m
1988			289.9m	299.2m
1989			335.5m	348.0m
1990	1699.4m	5225.4m	372.2m	423.2m
1991	2623.1m	5553.3m	433.2m	567.8m
1992	5634.9m	10702.1m	703.0m	1029.2m
1993	12235.6m	20700.0m	910.0m	1698.8m
1994	18239.5m	36000.0m	2040.0m	3584.0m

Note: For Jinjiang City, the numbers of 1977 and 1978 are non-agricultural output. The numbers from 1979 to 1987 are industrial outputs of rural enterprises.

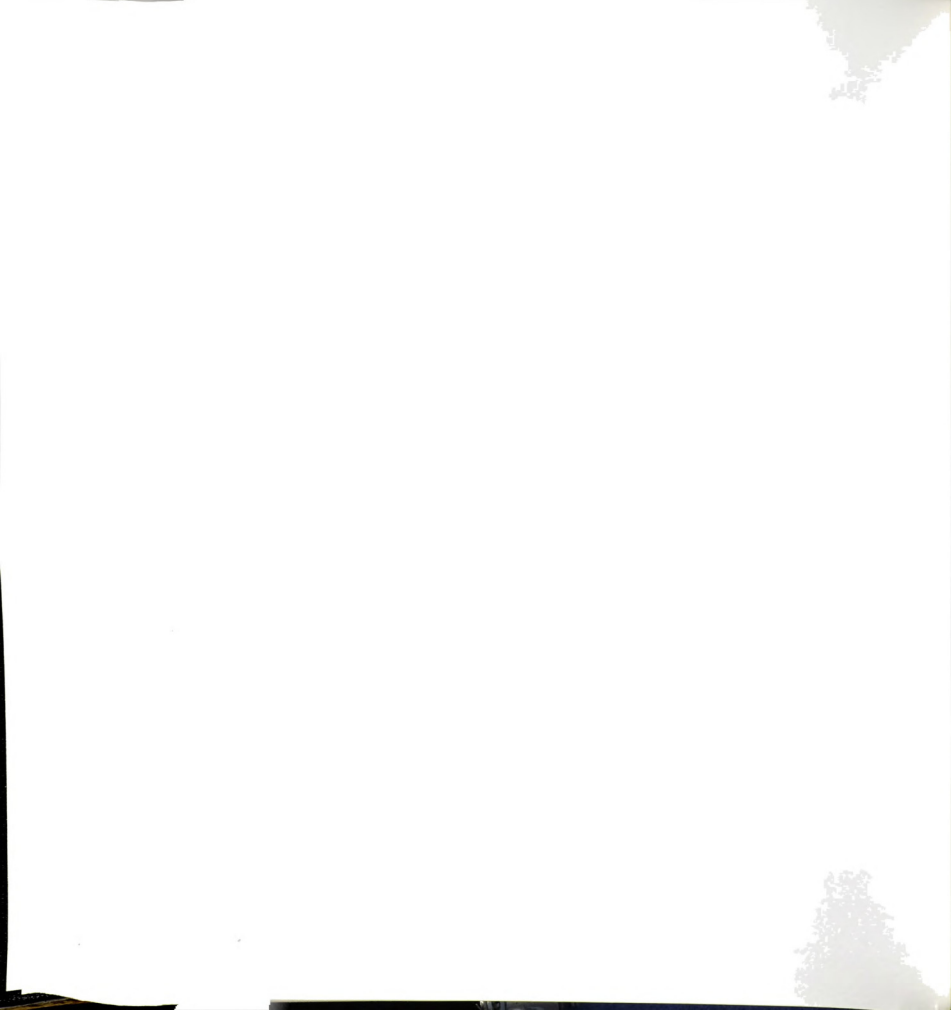


Table A.2. The number of rural enterprises.

	Jinjiang	Wujiang	Tongliang	Dazu
1977			720	933
1978	1141	1532	1017	1045
1979	1434		980	1186
1980	1733	1825	928	1155
1981	1944		812	953
1982	1936		974	903
1983	2271		3652	915
1984	3968		7905	2426
1985	5581	4043	8004	4882
1986	5418		9781	
1987	5840		10467	
1988			11488	
1989			11772	
1990	4937	2809	11666	
1991	6035	2235	11954	
1992	7113	2336	14025	
1993	8871	2348	15035	
1994			16077	

Table A.3. The number of workers.

	Jinjiang	Wujiang	Tongliang	Dazu
1977			5964	10799
1978	51961	62018	10190	17510
1979	78016		10006	14562
1980	99400	69118	9659	13968
1981	115083		10478	13074
1982	103209		11691	14569
1983	122818		23299	15073
1984	161069		37022	36992
1985	164886	167056	38300	61578
1986	167946		41963	79148
1987	177143		48171	85632
1988			53834	97424
1989			56014	105536
1990	179093	150132	54577	110456
1991	195276	148718	55147	116582
1992	231652	147158	60666	120204
1993	331115		66438	128504
1994			73209	134441

Table A.4. The value of annual industrial and agricultural output (in million yuans).

	Jinjiang	Wujiang	Tongliang	Dazu
1977	217.6m			
1978	238.8m		186.3m	
1979	291.9m			
1980	357.8m		268.0m	223.3m
1981	393.8m			
1982	402.8m			
1983	476.3m			
1984	712.5m			
1985	862.9m		400.5	380.0m
1986	1165.0m			
1987	1384.6m			
1988				
1989				
1990	2475.2m			
1991	3307.0m			
1992			1249.0m	
1993			1465.0m	
1994			1810.0m	

Table A.5. The annual local government revenue (in million yuans).

	Jinjiang	Wujiang	Tongliang	Dazu
1977	10.8m			9.2m
1978	14.8m		11.0m	9.7m
1979	14.7m			9.4m
1980	18.5m		13.4m	10.9m
1981	21.4m		13.5m	11.2m
1982	25.6m		15.2m	13.1m
1983	32.0m		15.6m	13.2m
1984	36.1m		16.4m	13.4m
1985	51.4m		19.3m	17.8m
1986	72.0m		21.8m	18.7m
1987	81.8m		26.1m	23.2m
1988			34.3m	29.5m
1989			47.1m	38.4m
1990	150.5m		49.6m	39.8m
1991			44.4m	42.2m
1992			46.8m	46.6m
1993	200.0m		64.0m	63.1m
1994			83.7m	80.1m

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Data supplied by the Rural Enterprises Bureaus (Committees) of Jinjiang, Wujiang, Dazu, and Tongliang Counties.



Appendix B

Survey Questionnaire

厂长经理管理行为分析问卷

第一部分:

1. 性别 (1) 男 _____
(2) 女 _____
2. 年龄 (1) 25及25岁以下 _____
(2) 26--35岁 _____
(3) 36--45岁 _____
(4) 46--55岁 _____
(5) 56及56岁以上 _____
3. 婚姻状况 (1) 未婚 _____
(2) 已婚 _____
(3) 离婚 _____
(4) 分居 _____
(5) 丧偶 _____
4. 教育程度 (1) 从未上过学 _____
(2) 小学 _____
(3) 初中 _____
(4) 高中 _____
(5) 中专 _____
(6) 大专以上 _____
5. 是否党员 (1) 是 _____
(2) 否 _____
6. 所在企业性质 (1) 集体(乡、镇办) _____
(2) 集体(村办) _____
(3) 私营 _____
(4) 中外合资 _____
(5) 其他(请注明) _____

7. 何年企业成立:

8. 现任职务:

9. 何年担任目前职务:

10. 现任职务已前的职务:

11. 请列出所在企业一种最主要产品的名称:

12. 您所在企业的名称:

13. 您的姓名:

14. 您所在企业的职工人数: _____

15. 您的企业最主要的销售方法是:

- (1) 固定用户收购 _____
- (2) 批发部门收购 _____
- (3) 自己找用户推销 _____
- (4) 找批发部门推销 _____

16. 您的企业有几家主要客户? _____

17. 1993年, 您的企业的出口产品占总产值的百分之几?

_____ %

18. 在工作中, 对于处理人与人之间的关系, 您的总体感觉是:

- | | | | | | | |
|------|-----|------|-----|------|-----|------|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) |
| 极其困难 | 困难 | 比较困难 | 说不准 | 比较容易 | 容易 | 毫无问题 |

19. 在管理企业时, 对于需要您做的工作, 您的总体感觉是:

- | | | | | | | |
|------|-----|------|-----|------|-----|------|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) |
| 极其困难 | 困难 | 比较困难 | 说不准 | 比较容易 | 容易 | 毫无问题 |

20. 在工作中, 总的说来, 使您意识到自身不足的场所是:

- | | | | | | | |
|-----|-----|-----|-----|-----|-----|-----|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) |
| 极多 | 多 | 较多 | 说不准 | 较少 | 少 | 极少 |



21. 您的企业在今后三年 (1995-1997) 的打算是:

(1) 扩大生产规模 (2) 维持原有生产规模 (3) 缩小生产规模

22. 您估计在今后三年 (1995-1997), 职工平均收入每年能增加百分之几?

_____ %

23. 您估计在今后三年 (1995-1997), 您的企业的生产总值每年能增加百分之几?

_____ %

24. 您估计在今后三年 (1995-1997), 您的企业的利税总额每年能增加百分之几?

_____ %

25. 您估计在今后三年 (1995-1997), 您本人的经济收入每年能增加百分之几?

_____ %

第二部分:

以下所列的是一些在工作中可能会遇到的情形. 在遇到这些情形时, 有的人会觉得无所谓, 有的人觉得有点不舒服或不自在, 有的人觉得很不舒服或很不自在, 有的人觉得无法忍受. 请想像一下如果遇到这些情形时, 您会有什么样的感觉?

在描述您的感觉时, 请在标尺上您认为适当的位置处画一短竖做标记. 您可以在任何地方做标记. 标尺的左端点代表无所谓, 标尺的右端点代表无法忍受. 越靠近左端点, 表示不舒服或不自在的感觉越不严重. 越靠近右端点, 表示不舒服或不自在的感觉越严重.

1. 假如您发现自己的工作结果与想达到的标准相差很远时, 您的感觉是:

|-----+-----+-----+-----+-----+-----+-----+-----+-----+-----+-----|
无所谓无法忍受

2. 假如在工作中, 您只能做简单重复的事情, 您的感觉是:

|-----+-----+-----+-----+-----+-----+-----+-----+-----+-----+-----|
无所谓无法忍受



3. 假如您长时间完不成一项您很喜欢的工作, 您的感觉是:

|-----+-----+-----+-----+-----+-----+-----+-----+-----+-----+-----|
无所谓 无法忍受

4. 假如您必须抵押很大一部分财产去做一件您很想做的事情, 您的感觉是:

|-----+-----+-----+-----+-----+-----+-----+-----+-----+-----+-----|
无所谓 无法忍受

5. 假如您总也不知道自己的工作结果是否达到标准, 您的感觉是:

|-----+-----+-----+-----+-----+-----+-----+-----+-----+-----+-----|
无所谓 无法忍受

6. 假如由于您的过错在工作中造成重大损失, 但是别人不知道, 您的感觉是:

|-----+-----+-----+-----+-----+-----+-----+-----+-----+-----+-----|
无所谓 无法忍受

7. 假如让您放弃一项非常想做的事情以避免经济上受损失, 您的感觉是:

|-----+-----+-----+-----+-----+-----+-----+-----+-----+-----+-----|
无所谓 无法忍受

8. 假如在工作中, 您总是做不费吹灰之力的事情, 您的感觉是:

|-----+-----+-----+-----+-----+-----+-----+-----+-----+-----+-----|
无所谓 无法忍受

9. 假如在工作中, 您总是不如别人, 您的感觉是:

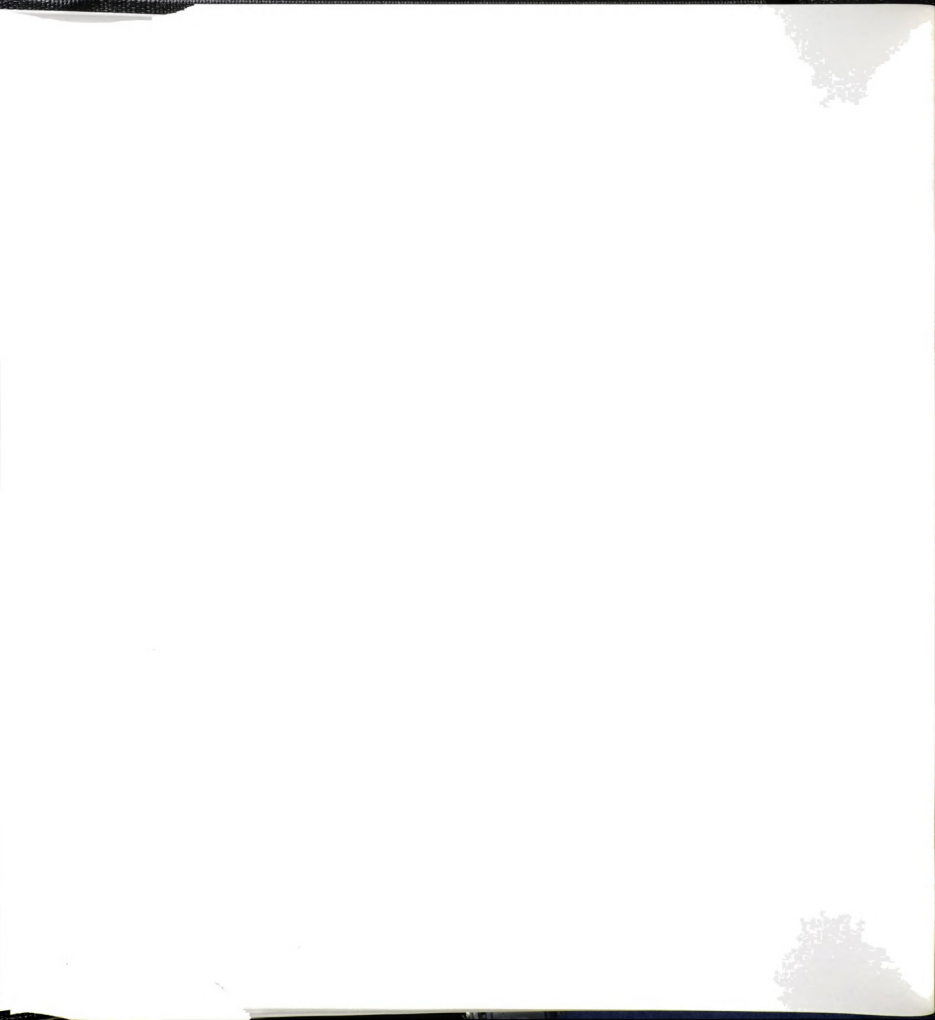
|-----+-----+-----+-----+-----+-----+-----+-----+-----+-----+-----|
无所谓 无法忍受

10. 假如您一辈子都只能做同一种事情, 您的感觉是:

|-----+-----+-----+-----+-----+-----+-----+-----+-----+-----+-----|
无所谓 无法忍受

11. 假如因为您做不好一项工作, 而由别人中途接手时, 您的感觉是:

|-----+-----+-----+-----+-----+-----+-----+-----+-----+-----+-----|
无所谓 无法忍受



12. 假如您担任的职务要求您必须对自己造成的损失负全部责任,您的感觉是:

|-----+-----+-----+-----+-----+-----+-----+-----+-----+-----+-----|
无所谓 无法忍受

13. 假如您总也不知道您所完成的一项工作是否符合要求,您的感觉是:

|-----+-----+-----+-----+-----+-----+-----+-----+-----+-----|
无所谓 无法忍受

14. 假如在工作中,当别人因为您的过错受到指责时,您的感觉是:

|-----+-----+-----+-----+-----+-----+-----+-----+-----+-----+-----|
 无所谓 无法忍受

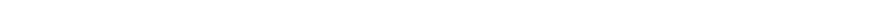
15. 假如让您中止一项有可能成功的工作以避免钱财受损失, 您的感觉是:

|-----+-----+-----+-----+-----+-----+-----+-----+-----+-----+-----|
 无所谓 无法忍受

16. 假如在工作中,您老是需要改变方法才能完成任务,您的感觉是:

|-----+-----+-----+-----+-----+-----+-----+-----+-----+-----+-----|
 无所谓 无法忍受

17. 假如您一直做不好您很喜欢的一项工作,您的感觉是:


 无所谓 无法忍受

18. 假如在工作中,您从来都没有机会尝试您自己的主意,您的感觉是:

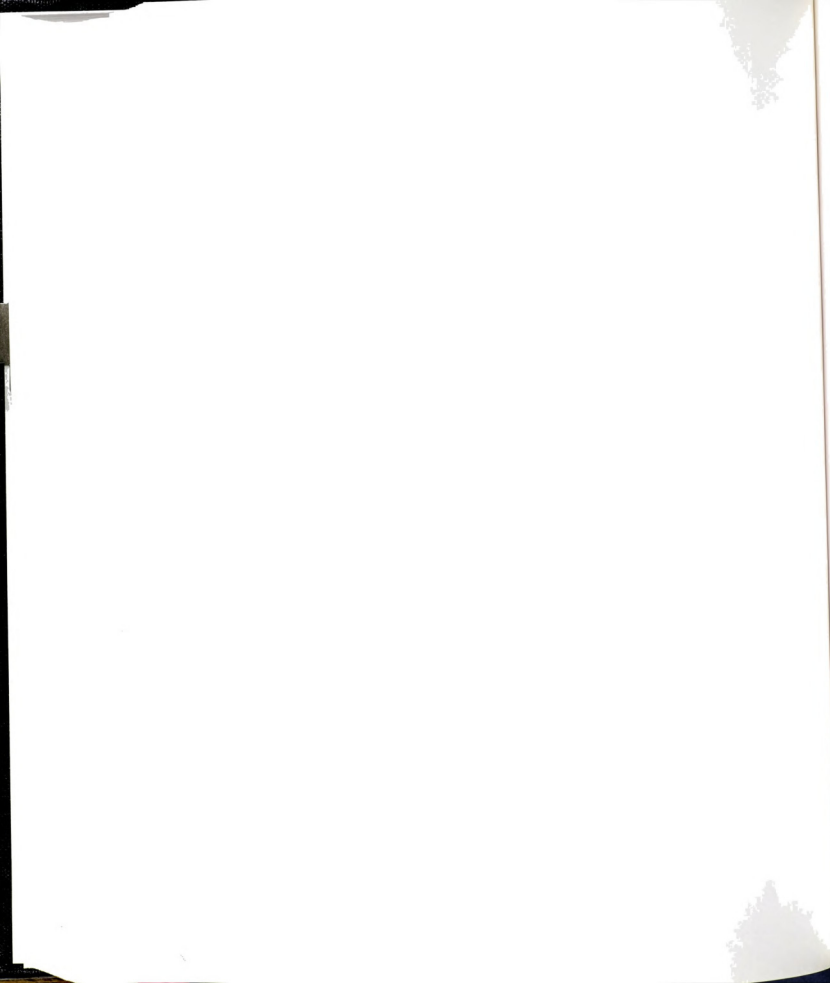
|-----+-----+-----+-----+-----+-----+-----+-----+-----+-----+-----|
无所谓 无法忍受

19. 假如在工作中,您总是不能按时完成任务,您的感觉是:

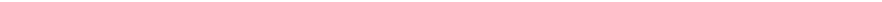
|-----+-----+-----+-----+-----+-----+-----+-----+-----+-----|
 无所谓无法忍受

20. 假如您担任的职务要求您必须比所有的人都做得好, 您的感觉是:

|-----+-----+-----+-----+-----+-----+-----+-----+-----+-----|
 无所谓无法忍受



21. 假如您总也不知道您正在做的工作是否已经取得想要的结果,您的感觉是:


 无所谓 无法忍受

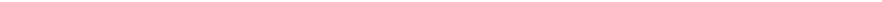
22. 假如在工作中由于您的过错造成重大损失,但是没有人责怪您,您的感觉是:

|-----+-----+-----+-----+-----+-----+-----+-----+-----+-----|
 无所谓 无法忍受

23. 假如让您放弃一项非常想做的工作来保护已经得到的经济利益, 您的感觉是:

|-----+-----+-----+-----+-----+-----+-----+-----+-----+-----+-----|
 无所谓无法忍受

24. 假如在工作中别人指出您的不足之处时, 您的感觉是:


 无所谓 无法忍受

对以下所列的观点,有的人表示同意,有的人表示不同意.请表明您对这些观点的看法.请在合适的答案处打勾.每个问题只选一个答案.

1. 在工作中,我喜欢靠自己去寻找解决问题的方法.

(1) 完全同意 (2) 同意 (3) 有点同意 (4) 说不准 (5) 不太同意 (6) 不同意 (7) 完全不同意

2. 我喜欢做有一定风险但是有成功希望的事情.

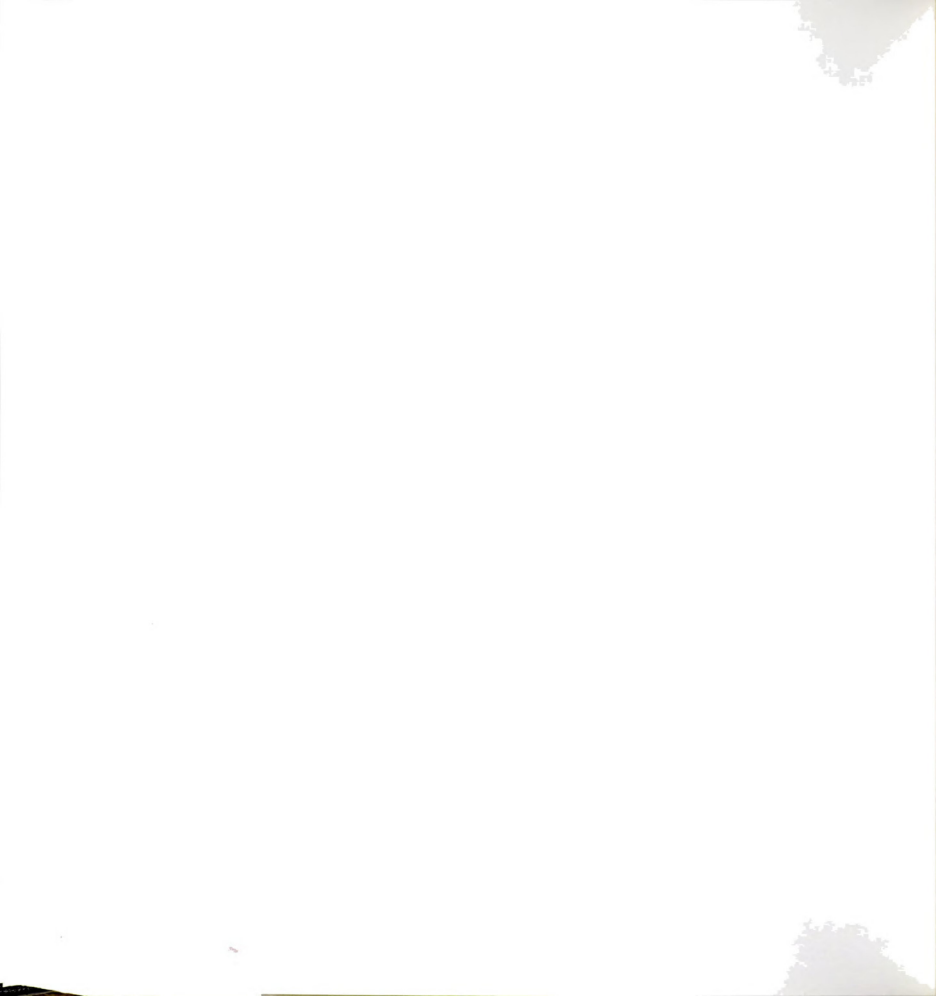
(1)	(2)	(3)	(4)	(5)	(6)	(7)
完全同意	同意	有点同意	说不准	不太同意	不同意	完全不同意

3. 我需要准确地知道我自己的工作成绩.

(1) 完全同意 (2) 同意 (3) 有点同意 (4) 说不准 (5) 不太同意 (6) 不同意 (7) 完全不同意

4. 我经常花时间考虑怎样才能把工作做得更好.

(1) 完全同意 (2) 同意 (3) 有点同意 (4) 说不准 (5) 不太同意 (6) 不同意 (7) 完全不同意



5. 如果我没有达到我自己定的标准, 我会很不高兴.

(1) (2) (3) (4) (5) (6) (7)
完全同意 同意 有点同意 说不准 不太同意 不同意 完全不同意

6. 我不会让别人为我自己造成的损失分担责任.

(1) (2) (3) (4) (5) (6) (7)
完全同意 同意 有点同意 说不准 不太同意 不同意 完全不同意

7. 在工作中遇到问题时, 我往往等着别人告诉我解决的方法.

(1) (2) (3) (4) (5) (6) (7)
完全同意 同意 有点同意 说不准 不太同意 不同意 完全不同意

8. 即使有成功的可能, 我也不愿意做要冒一定的风险的事情.

(1) (2) (3) (4) (5) (6) (7)
完全同意 同意 有点同意 说不准 不太同意 不同意 完全不同意

9. 我很少关心我做的事情的结果.

(1) (2) (3) (4) (5) (6) (7)
完全同意 同意 有点同意 说不准 不太同意 不同意 完全不同意

10. 我很少去想如何把工作做得更好的问题.

(1) (2) (3) (4) (5) (6) (7)
完全同意 同意 有点同意 说不准 不太同意 不同意 完全不同意

11. 我不会因为没有达到自己定的标准而感到不高兴.

(1) (2) (3) (4) (5) (6) (7)
完全同意 同意 有点同意 说不准 不太同意 不同意 完全不同意

12. 如果我做坏了一件事, 我希望由别人来承担责任.

(1) (2) (3) (4) (5) (6) (7)
完全同意 同意 有点同意 说不准 不太同意 不同意 完全不同意



第三部分: 回答以下问题时, 请认真考虑一下您的企业或公司的实际经营状况.

一. 在过去的三年 (1991-1993) 中, 平均起来, 您对自己企业的下列指标的评价是: (回答时请先指出每项指标是增加、持平、或下降, 然后在标尺上说明增加或下降的速度).

1. 总产值 一) 下降; 二) 持平; 三) 增加

增长或下降的速度是: |-----+-----+-----+-----+-----+-----+-----+-----+-----|
非常慢 非常快

2. 利税总额 一) 下降; 二) 持平; 三) 增加

增长或下降的速度是: |-----+-----+-----+-----+-----+-----+-----+-----+-----+-----|
非常慢 非常快

3. 税后利润 一) 下降; 二) 持平; 三) 增加

增长或下降的速度是: |-----+-----+-----+-----+-----+-----+-----+-----+-----+-----|
非常慢 非常快

4. 职工人数 一) 下降; 二) 持平; 三) 增加

增长或下降的速度是: |-----+-----+-----+-----+-----+-----+-----+-----+-----+-----|
非常慢 非常快

5. 职工人均收入(包括工资、奖金,及其他各种现金实物收入)

一) 下降; 二) 持平; 三) 增加

增长或下降的速度是: |-----+-----+-----+-----+-----+-----+-----+-----+-----+-----|
非常慢 非常快

6. 人均产值 一) 下降; 二) 持平; 三) 增加

增长或下降的速度是: |-----+-----+-----+-----+-----+-----+-----+-----+-----+-----|
非常慢 非常快

7. 人均利税 一) 下降; 二) 持平; 三) 增加

增长或下降的速度是: |-----+-----+-----+-----+-----+-----+-----+-----+-----+-----|
非常慢 非常快



一) 下降; 二) 持平; 三) 增加

二. 在过去三年 (1991-1993), 平均说来, 与本地区类似的企业相比, 您对自己的企业在下列指标上的评价是:

3. 人均利税 |-----+-----+-----+-----+-----+-----+-----+-----+-----|
非常慢 非常快

5. 职工人数 |-----+-----+-----+-----+-----+-----+-----+-----+-----+-----|
非常慢 非常快



7. 请列出建厂那年和过去三年您所在企业的下列指标:

	建厂年	1991	1992	1993
1. 总产值				
2. 销售收入				
3. 利税总额				
4. 职工人数				

第四部分: 根据您管理企业的实际体会, 请估计一下, 对下面所列事项, 在做决定时, 您可以做几成主. 对于您通常不过问的事项, 请填零.

- | | |
|---------------|-----------|
| 1. 聘请或提拔干部 | 您的权力_____ |
| 2. 奖励优秀干部 | 您的权力_____ |
| 3. 将不胜任的干部降职 | 您的权力_____ |
| 4. 开除犯严重过错的干部 | 您的权力_____ |
| 5. 招收工人 | 您的权力_____ |
| 6. 惩罚有过错的工人 | 您的权力_____ |
| 7. 开除工人 | 您的权力_____ |
| 8. 企业定员 | 您的权力_____ |
| 9. 确定企业的生产规模 | 您的权力_____ |



- | | |
|-------------------|-----------|
| 10. 开发新产品 | 您的权力_____ |
| 11. 进行新的投资 | 您的权力_____ |
| 12. 确定企业的发展方向 | 您的权力_____ |
| 13. 决定资金使用方法 | 您的权力_____ |
| 14. 确定产品质量标准 | 您的权力_____ |
| 15. 确定产品销售对象 | 您的权力_____ |
| 16. 决定产品价格 | 您的权力_____ |
| 17. 选择原材料供应者 | 您的权力_____ |
| 18. 决定集资方案 | 您的权力_____ |
| 19. 捐助公益事业 | 您的权力_____ |
| 20. 参加社区建设 | 您的权力_____ |
| 21. 决定上缴当地政府的资金数量 | 您的权力_____ |
| 22. 拒绝当地政府的要求 | 您的权力_____ |
| 23. 拒绝其它企业的要求 | 您的权力_____ |
| 24. 确定工作场所的布置 | 您的权力_____ |
| 25. 安排工人的生产定额 | 您的权力_____ |
| 26. 安排下属部门的生产计划 | 您的权力_____ |
| 27. 解决产品设计中的问题 | 您的权力_____ |
| 28. 调整工人的工作内容 | 您的权力_____ |
| 29. 确定下属部门的人员配备 | 您的权力_____ |
| 30. 确定各部门的生产进度 | 您的权力_____ |

一. 根据您的企业所在行业的实际情况, 请对下列项目做出判断.

二. 根据您的企业所在地区的实际情况, 请对下列项目做出判断.

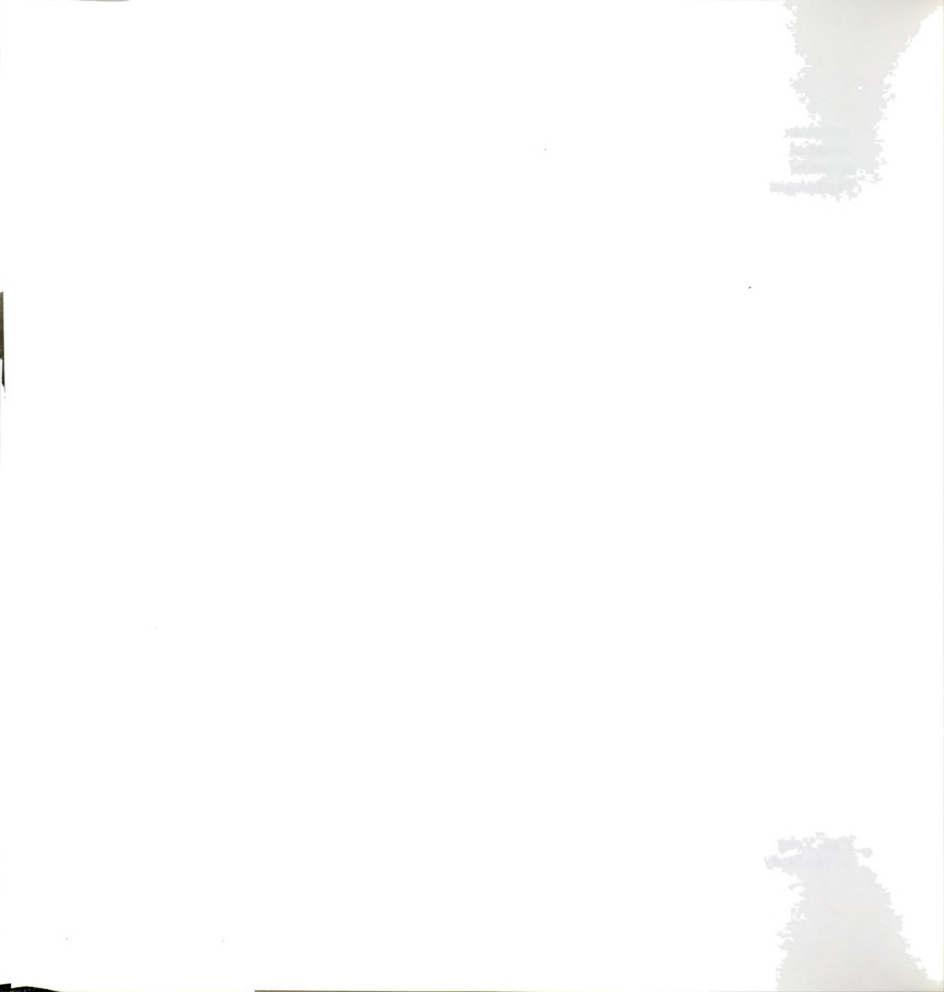
三. 根据您的企业的实际情况, 请对下列项目做出判断.

612



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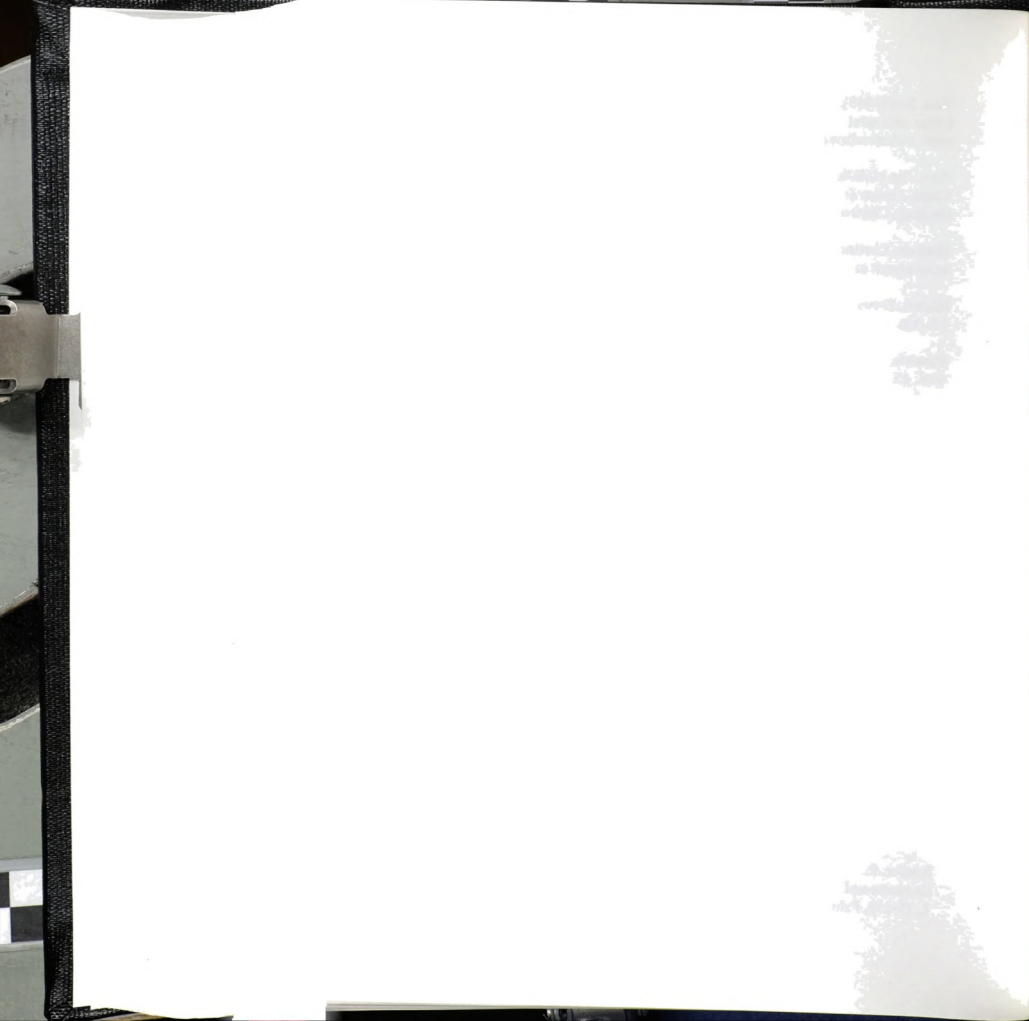
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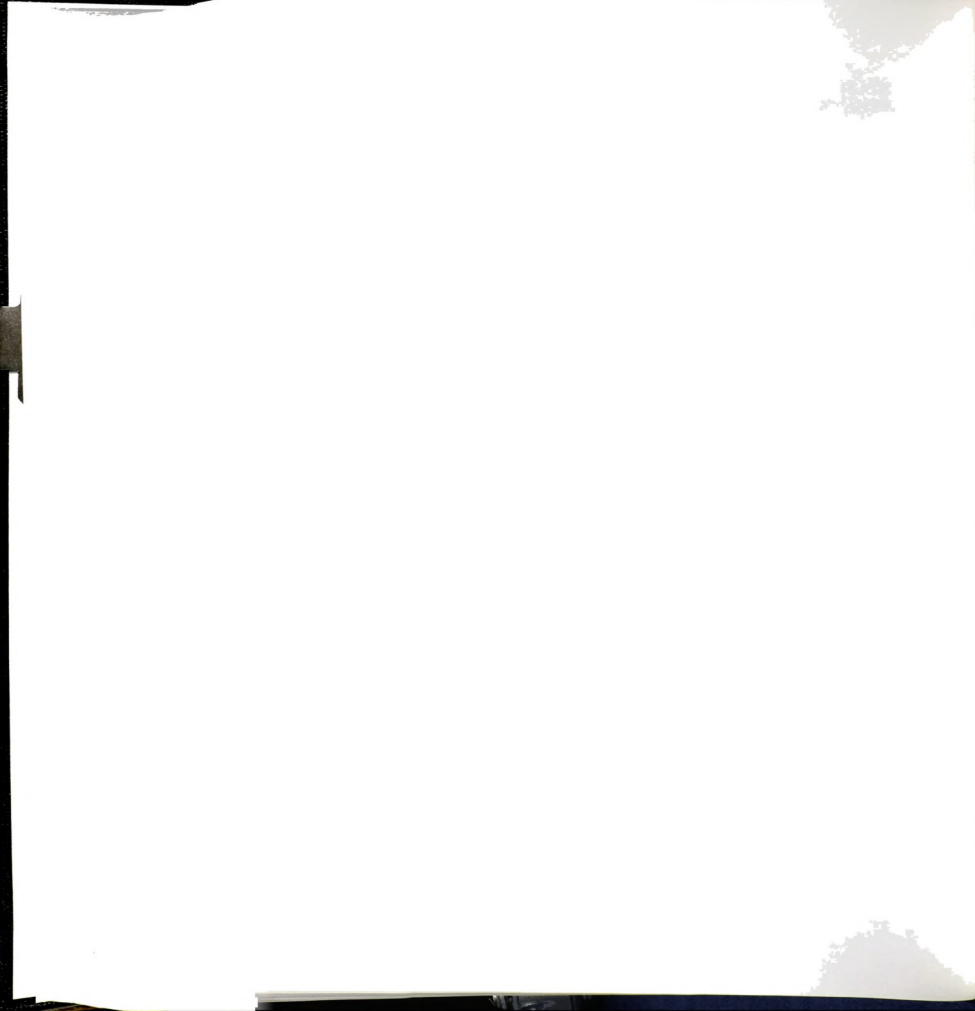
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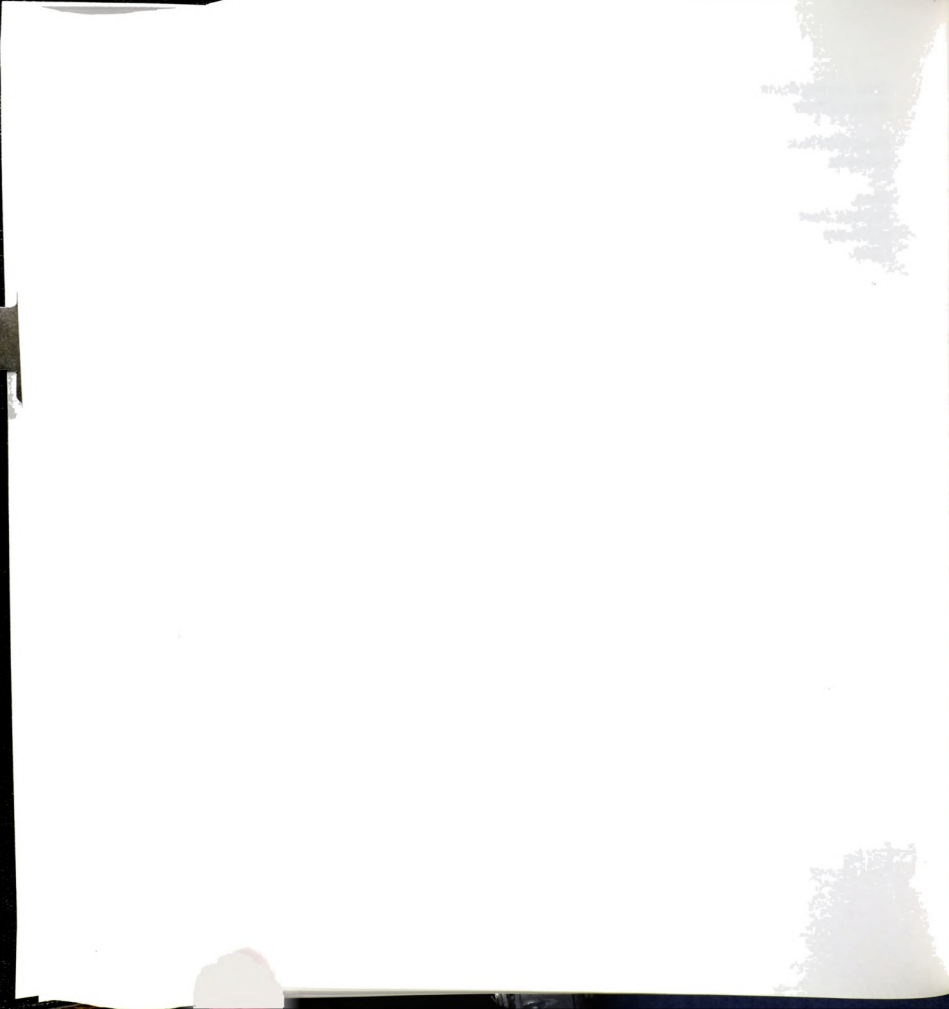
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