

# The Impact of Financial Support on Household Entrepreneurship in China

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## ABSTRACT

Financial support plays a key role in promoting household entrepreneurship in China. This study aims to explore the impact of financial support on household entrepreneurship in China, focusing on the differences between formal and informal financial support. This study combines the use of China Family Panel Studies (CFPS) data with analysis using the Probit model to reveal the relationship between financial support and household entrepreneurship. The results show that financial support has a significant positive impact on household entrepreneurship in China, and the extent of the impact of informal financial support is greater than that of formal financial support. The findings have practical implications for Chinese household entrepreneurs, financial institutions and policy makers. Entrepreneurs can choose the appropriate form of financial support according to their own situation, while financial institutions and the government can consider strengthening financial education and knowledge dissemination, providing entrepreneurial subsidies and support, and offering more flexible financing channels to support the development of family entrepreneurship in China.

## KEYWORDS

Financial Support; Entrepreneurship; Formal Financial Support; Informal Financial Support.

## 1. INTRODUCTION

Entrepreneurship is an important force for economic development, job creation and social innovation. In China, household entrepreneurship is an important part of the entrepreneurial ecosystem, covering a wide range of industries and diverse business forms. Financial support plays a key role in household entrepreneurship by providing the capital, resources and services that entrepreneurs need to start, operate and expand their businesses ( Zhou, 2021). Financial support includes both formal and informal financial support, each with different characteristics and roles.

Family entrepreneurship refers to entrepreneurial activities carried out on a household basis, usually operated and managed by family members. It covers a wide range of forms such as agriculture, manufacturing, retailing, services and handicrafts. This type of entrepreneurship is characterized by flexibility, low cost and cooperation among family members, and is suitable for small and medium-sized enterprises. However, family entrepreneurship also faces challenges such as insufficient capital, unstable markets and inexperienced management, and financial support has thus become an important guarantee for the success of family entrepreneurship (He & Chen, 2022).

Financial support plays a key role in household entrepreneurship, providing entrepreneurs with start-up, working and expansion capital. Financial support includes both formal and informal financial support, each with different characteristics and roles to help entrepreneurs overcome financial barriers at different stages ( Di & Yang, 2023; Wang & Hao, 2023).

It is important to study the impact of financial support on household entrepreneurship in China. First, household entrepreneurship is an important part of China's economy, providing many households with a way to generate income and employment opportunities. By studying the relationship between financial support and household entrepreneurship, we can better understand the capital needs of entrepreneurs and the availability of financial support. Second, financial support plays an important role in household entrepreneurship in China, with formal and informal financial support each having different strengths and weaknesses, and an in-depth study of the impact of these forms of support can help provide guidance to policymakers and entrepreneurs.

Overall, financial support plays a key role in household entrepreneurship in China, providing entrepreneurs with start-up, operating and expansion capital. Formal financial support, including bank loans, government subsidies and venture capital, is transparent and regulated. Informal financial support, which includes loans from family and friends, private lending, and cooperative funding, is flexible and accessible. However, the availability and effectiveness of financial support depends largely on the entrepreneur's background and entrepreneurial environment. This study will delve into the impact of financial support on household entrepreneurship in China, analyze the role of formal and informal financial support in entrepreneurship, and make relevant policy recommendations.

## **2. LITERATURE REVIEW**

Home-based entrepreneurship plays an important role in China's economic development, providing many families with a means of economic independence and contributing to the development of local economies. Financial support plays a key role in household entrepreneurship, providing entrepreneurs with start-up, operating and expansion capital. Financial support mainly includes formal and informal financial support, both of which play different roles in household entrepreneurship.

Liu et al. (2017) analyzed the impact of financial support on household entrepreneurship and its spatial differences through Probit model and multiple regression model, and found that financial support for household entrepreneurship varies in different regions, and that formal and informal finance in the economically developed provinces and cities in the east can effectively support household entrepreneurship, while formal finance in the economically underdeveloped provinces and cities in the central and western regions cannot effectively support household entrepreneurship. Formal finance in the less economically developed provinces and cities in the central and western parts of the country cannot effectively support rural household entrepreneurship.

Xu et al. (2021) analyzed the theoretical mechanism of financial inclusion to support farmers' entrepreneurship. Through the survey data statistics of Guangdong farmers, it is found that the enrichment effect of farmers' entrepreneurship is significant, the benefits of farmers' entrepreneurship are low, and inclusive financial support is significantly positively correlated with the benefits of farmers' entrepreneurship. Tang et al. (2022) studied the impact of financial support on the entrepreneurial decision-making of farm households by constructing a probit model and an instrumental variable model. The empirical results show that financial support has a significant positive effect on farmers' entrepreneurial decisions. Further research proves that informal finance is more effective than formal finance in promoting entrepreneurial decision-making. In addition, there is a significant substitution effect between formal and informal finance in rural areas.

Although there have been many studies on financial support and household entrepreneurship (Zeng et al. 2018; Ma, 2020; Chen et al. 2022; Guo et al. 2023), there are still some research gaps. Further research on the causal relationship between financial support and household entrepreneurship is needed to reveal the key factors that influence entrepreneurial success. Therefore, this study attempts to examine the impact of financial support on formal household entrepreneurship and to further explore the impact of formal and informal financial support on household entrepreneurship in China.

### 3. RESEARCH METHODOLOGY

#### 3.1. Data Source

The data selected for this study came from the China Family Panel Studies (CFPS) database. CFPS includes the basic information of family members, their economic and financial situation, production and operation, and social activities, covering a wide range of areas. Based on data availability and research needs, this study uses CFPS 2020 data as the research sample. According to the research purpose, this study extract the variables and indicators needed for the study. In order to ensure the reliability and validity of the empirical analysis results, missing values, outliers and invalid samples with low sample quality are excluded, and finally 1826 valid samples are obtained.

#### 3.2. Research Variable

**Dependent variable:** In order to analyze the impact that financial support has on household entrepreneurship, this study takes household entrepreneurship as the dependent variable. If the respondent household is engaged in the production and operation of industry and commerce, it means that the household is an entrepreneurial household, which is assigned a value of 1, otherwise it is assigned a value of 0.

**Independent variable:** The independent variable in this study is financial support, which consists of two main aspects: first, formal financial support channels and second, informal financial support channels. Formal financial support indicates that the entrepreneurial household receives funds from banks or credit unions, and informal financial support indicates that the entrepreneurship receives borrowing from private channels. For financial support, as long as the entrepreneurial household receives financial support from either of the formal or informal financial sources, the household is considered to have received financial support, which is assigned a value of 1 and 0 otherwise.

**Control variables:** The control variables selected include personal characteristic variables and household characteristic variables. Among them, personal characteristic variables include gender, age, health status and education level. Household characteristic variables include household income. Households with a high level of income will find it relatively easy to borrow from financial institutions and have more abundant funds to start their own business, and such households usually have a stronger ability to bear risks, thus making it more likely that they will participate in entrepreneurship. The information of each variable is shown in Table 1.

**Table 1.** Information for each variable

variable name	Variable Symbol	Variable Definition
Entrepreneurship	EP	Household engaged in industrial or commercial operations = 1, otherwise = 0
Financial Support	FS	Access to financial support = 1, otherwise = 0
Formal Financial Support	FFS	Access to formal financial support = 1, otherwise = 0
Informal Financial Support	IFS	Access to informal financial support = 1, otherwise = 0
Gender	Gender	Male = 1, Female = 0
Age	Age	Age of respondent
Health status	Health	Very bad = 1, bad = 2, fair = 3, good = 4, very good = 5
Education level	Education	Elementary school and below = 1, Middle school = 2, High school or junior college = 3, college = 4, Bachelor's degree and above = 5
Household Income	Income	Per capita household income

### 3.3. Model Construction

Since entrepreneurship is a dichotomous dummy variable attribute, this study applies the probit model to analyze the impact of financial support on household entrepreneurship in China, and the specific model is constructed as follows.

$$p_i = (EP = 1|x) = F(\beta_0 + \beta_1 F_i + \beta_2 X_i + \varepsilon_i) \quad (1)$$

In equation (1),  $EP$  represents the explanatory variable indicating whether the respondent household is engaged in the production and operation of business or industry; if  $EP = 1$  it means the household is an entrepreneurial household, and if  $EP = 0$  it indicates that the household is not engaged in the relevant entrepreneurial activity.  $F_i$  is an indicator of financial support.  $X_i$  includes control variables such as individual and household characteristics.  $\varepsilon_i$  is a disturbance term.  $\beta_0$  is the constant term,  $\beta_1$ ,  $\beta_2$ , and  $\beta_3$  are parameters to be estimated.

## 4. RESULT AND DISCUSSION

As can be seen from Table 2, column (1) indicates the impact of financial support on household entrepreneurship in China. Financial support has a significant positive impact on household entrepreneurship in China. This suggests that households with financial support are more likely to make entrepreneurial decisions, thus driving an increase in entrepreneurial activity. Columns (2) and (3) show the impact of formal and informal finance on entrepreneurial households, respectively. Overall, both formal and informal finance have a significant impact on households' entrepreneurial decisions. In contrast, the impact of informal finance on households' entrepreneurial decisions is more pronounced. This may be due to the fact that entrepreneurial activities are inherently risky and flexible, while formal financial institutions often require complex approval and guarantee procedures, limiting the financing needs of some entrepreneurial households. Informal finance, on the other hand, is characterized by simplified processes and greater flexibility in the use and duration of funds, and is therefore more likely to meet the needs of household entrepreneurship. Therefore, financial support has a positive effect on household entrepreneurship in China. In particular, informal financial institutions, with their simplified processes and flexibility, may be better suited to support entrepreneurial households, thus contributing to a higher probability of entrepreneurship.

From the perspective of control variables, the gender, age, health, education and income of the head of household all have a positive impact on entrepreneurship in Chinese households. Overall, Chinese households headed by men are more likely to choose entrepreneurship, while households headed by women prefer stable jobs. The likely reason for this is that women are usually more focused on family stability and frugality, which makes them less likely to choose entrepreneurship, *ceteris paribus*. As for the age of the head of the household, the data suggests that the probability of the household starting a business rises with age. This may be due to the fact that increasing age brings with it more experience and networking resources, making entrepreneurial decisions and access to information smoother.

In terms of education, higher levels of education imply a better knowledge base and ability to learn. This enables them to assess more effectively the various risks involved in starting a business and to access financial support more easily. In addition, households in good health spend less on healthcare and therefore have more disposable income. At the same time, heads of such households have more energy and time and are more motivated to start a business. Income is also an important influencing factor. Households with higher incomes are more resilient in the face of entrepreneurial risks, and

they usually have greater reserves of capital with which to launch entrepreneurial ventures more easily.

**Table 2.** Results of regression analysis

Variable	Probit (1)	Probit (2)	Probit (3)
FS	0.410*** (0.015)		
FFS		0.080*** (0.019)	
IFS			0.089*** (0.017)
Gender	0.029*** (0.007)	0.037*** (0.015)	0.035*** (0.008)
Age	0.026*** (0.009)	0.029*** (0.008)	0.031*** (0.009)
Health	0.121*** (0.013)	0.119*** (0.014)	0.126*** (0.015)
Education	0.016*** (0.015)	0.022*** (0.013)	0.010*** (0.015)
Income	0.018*** (0.010)	0.016*** (0.008)	0.013*** (0.005)
Coefficient	0.612*** (0.130)	0.553*** (0.128)	0.518*** (0.127)

Note: \*, \*\* and \*\*\* indicate 10%, 5% and 1% significance levels, respectively. Values in parentheses are standard errors.

## 5. CONCLUSIONS AND RECOMMENDATIONS

The study finds that financial support has a significant positive impact on household entrepreneurship in China, and the extent of the impact of informal financial support is greater than that of formal financial support. Both formal and informal finance have a significant positive impact on household entrepreneurship in China. The greater impact of informal finance on entrepreneurship may be due to its greater flexibility and fewer approval constraints, which make it easier for entrepreneurial households to access capital. In order to maximize the positive impact of financial support on household entrepreneurship in China, this study makes the following policy recommendations.

First, strengthen financial education and knowledge dissemination. The importance of financial education for entrepreneurs cannot be ignored. The government and financial institutions can carry out financial literacy activities to improve Chinese households' understanding of financial products and services. At the same time, and to enhance the level of financial education, they can help farmers solve their financial problems by setting up financial counseling services and providing them with free counseling services.

Second, promote risk management and insurance. The process of entrepreneurship may face various risks, and financial institutions need to pay attention to risk management when providing support. The government can establish a rural entrepreneurship risk fund to provide entrepreneurs with financial support to mitigate entrepreneurial risks. When providing loans and investments, financial institutions should strengthen risk assessment to ensure rational allocation of funds and reduce the risk of loan default and investment failure.

Third, provide subsidies and support for entrepreneurship. Government support is an important factor in promoting household entrepreneurship. Depending on the stage of entrepreneurship and the type of project, the Government can help entrepreneurs reduce start-up costs and ensure incentives for entrepreneurship by providing targeted start-up subsidies.

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