

A framework For Government Policy, Entrepreneurial Leadership, and Management Innovation that effect to the success of SMEs in China's rural communities

Junzhao Liu⁴, Jiraphorn Sawasdiruk²

¹ Junzhao Liu, doctoral student, innovation management college, Suan Sunandha Rajabhat University

² Jiraphorn Sawasdiruk, Doctor, innovation management college, Suan Sunandha Rajabhat University

Abstract:

This paper presents a framework that examines the impact of government policy, entrepreneurial leadership, and management innovation on the success of small and medium-sized enterprises (SMEs) in China's rural communities. Using a Literature analysis methods, the study analyses the effectiveness of government policies in supporting rural SMEs and explores the role of entrepreneurial leadership and management innovation in driving their success. The findings highlight the interplay among these factors and provide practical recommendations for policymakers, SME owners, and researchers to enhance the performance of rural SMEs in China. This framework contributes to the existing literature by offering a comprehensive understanding of the factors influencing rural SMEs success and provides actionable insights for promoting sustainable economic development in rural communities.

Keywords: Government Policy, Entrepreneurial Leadership, Management Innovation

1. Introduction

1.1 Research background

Small and Medium-sized Enterprises (SMEs) have become the most dynamic group within the market economy, playing an indispensable role in profit generation, employment creation, enhancing people's livelihoods, promoting technological innovation, and maintaining social stability (Lingli, 2020). SMEs encompass a wide range of organizations engaged in economic activities,

⁴ Corresponding author: Junzhao Liu, doctoral student, innovation management college, Suan Sunandha Rajabhat University, gxgbjypx@foxmail.com

regardless of their legal structure, but with certain size restrictions. This includes individual merchants, family businesses involved in crafts or other ventures, as well as partnerships or associations regularly conducting economic activities (Ma, Liu & Gao, 2021).

Currently, SMEs and self-employed individuals are the primary channels for employment generation and economic vitality. According to an August 2019 report by the International Labor Organization (ILO), small and micro enterprises and self-employed individuals account for 70% of employment opportunities across 99 countries. The significant contributions of small, micro, and medium-sized enterprises alleviate social employment pressures, enhance living standards, and promote harmonious social development. Additionally, the "2020 China's Small and Medium-sized Enterprise Market Status Survey and Development Trend Forecast Analysis Report" released by the China Industry Research Network indicates that, by the end of 2019, Chinese small, micro, and medium-sized enterprises constituted 99.7% of the total enterprise count in the country, with small and micro enterprises accounting for 97.3%. Chinese SMEs contribute over 50% of tax revenue, more than 60% of GDP, over 70% of technological innovation, over 80% of urban labor employment, and over 90% of enterprise numbers (Zhou, 2019). Thus, they represent the primary driving force behind national economic and social development (Huiqin, 2020).

Chinese SMEs align with China's resource advantages, allowing them to leverage their comparative advantage in competitive markets, exhibiting strong profitability, and creating substantial societal wealth. Industrial enterprises' data shows that SMEs outperform large-scale enterprises in terms of gross production value and the proportion of value added in production, highlighting their relatively efficient operational capabilities that inject vitality into the market (Ma, Liu & Gao, 2021).

Small and Medium-sized Enterprises (SMEs) form the foundational pillar of China's national economy. Over 97% of Chinese companies fall into the SME category, contributing approximately 60% to the country's GDP and generating 80% of employment opportunities (Huang, Baruah & Ward, 2021). In rural areas, small businesses play a vital role in driving social and economic development, acting as stepping stones for progress (U.S. Small Business Administration [SBA], 2019). The closure of numerous small rural businesses can lead to an increase in unemployment rates, discourage investors, and disrupt social and economic stability in the region. The wealth of a region is a consequence of its economic growth and development (Ang, 2018), with small business owners in rural communities employing 48% of the private sector workforce (U.S. SBA, 2019). However, it is worth noting that one out of every two small businesses shut down before reaching its fifth year of operation (Restrepo-Morales et al., 2019). The U.S. SBA (2019) predicts a continued decline in the success rate of small

businesses over time. Therefore, the fate of rural communities, in terms of economic and social stability, can be positively or negatively influenced by the prevention or occurrence of closures among small startup business owners.

SMEs differ from larger firms across various dimensions, including organizational structure, responses to the environment, managerial styles, and competitive strategies. SMEs possess the advantages of flexibility and ease of internal communication. However, they also face disadvantages such as limited resources and challenges in securing financing (Gaganis, Pasiouras & Voulgari, 2019).

Chinese Small and Medium-sized Enterprises (SMEs) have experienced rapid growth since the country initiated its reform and opening-up policies, establishing themselves as an essential, dynamic, and rapidly expanding force within the national economy. These small and medium-sized private enterprises persistently compete and grow amidst fierce market competition, leveraging their flexible and diverse business approaches. However, due to variations in historical, cultural, political, and economic operating systems across different countries or regions, SMEs encounter a range of challenges. Chinese SMEs have faced issues such as inadequate management mechanisms, difficulties in accessing credit and financing, weak internal control, limited risk resilience, and a shortage of high-quality talent, all of which have hindered their development and growth (Wang & Cao, 2018). Studies indicate that most SMEs confront the predicament of low growth rates and high mortality rates (Jiao, Zhang & Tang, 2020). This situation is not unique to Chinese SMEs but affects their counterparts worldwide. Statistical analysis reveals that the average lifespan of American SMEs is less than 7 years, European and Japanese companies have an average lifespan of 12.5 years, and Chinese enterprises have an average lifespan of 6-7 years, with small and medium-sized private enterprises having an even shorter average lifespan of only 2.9 years (Caishuang, 2021). Therefore, the outlook for the development and growth of small and medium-sized private enterprises is not optimistic, and they face significant survival pressures.

The spread of the COVID-19 pandemic has had a profound impact on China's economy and posed severe challenges to the survival of domestic SMEs. According to the "Research Report on the Countermeasures and Suggestions on the Impact of COVID-19 Pandemic on SMEs" issued by the China Association of SMEs on February 15th, 2020, nearly 67.69% of SMEs experienced a reduction in operating income. Furthermore, 21.61% of SMEs faced difficulties in repaying debts, leading to increased pressure on operating funds. Alarming, 86.22% of SMEs had less than three months' worth of funds to sustain their operations, and 33.73% lacked sufficient funds to survive for even one month. Only 9.89% of SMEs reported being able to survive for more than six months. The precarious financial situation of SMEs cornered them, directly impacting China's economic

growth. Consequently, China's GDP growth rate in the first quarter experienced a year-on-year decline of 6.8%, reaching a 20-year low. Simultaneously, the job market stagnated, and the unemployment rate rose from 5.3% in January to 6.0% in April (Xiaodong & Pingxiu, 2020). Therefore, the COVID-19 outbreak has continued to exert ongoing influence on Chinese SMEs, with persisting negative impacts. The downward economic pressure caused by the pandemic will not disappear immediately as the crisis abates. The long-term recovery, as well as the challenges of survival and development, remain significant tasks for SMEs.

In China's rural communities, SMEs encounter unique challenges and must navigate these by integrating resources and fostering innovation. Regardless of external environmental changes, business owners must prioritize internal development and address internal issues. By leveraging the controllability and stability of their enterprises, they can effectively respond to external fluctuations and uncertainties, ensuring the survival of their businesses amidst turbulent conditions.

1.2 Problem Statement

Small business startup owners encounter numerous challenges when entering the highly competitive marketplace, often resulting in a high rate of failure within a short period (Zahra, 2021). In fact, statistics from the U.S. Small Business Administration (SBA, 2019) indicate that approximately 50% of new small business owners experience failure within the first five years of operation.

Government Policy, Entrepreneurial Leadership, and Management innovation is very important for small and medium-sized enterprises. It is worth studying how to give full play to these three functions and improve the development level of small and medium-sized enterprises in rural communities in China. How can small and medium-sized enterprises in rural communities in China succeed by obtaining external resource support and improving their own management level?

1.3 Research question

1. How is the level of relationship between Government Policy, Entrepreneurial Leadership, and Management innovation that effect to the success of small and medium-sized enterprises in China's rural communities?

2. What is the relationship between Government Policy, Entrepreneur Leadership and Management innovation in influencing the success of SMEs?

3. How is the model for the success of small and medium-sized enterprises in China's rural communities look like?

1.4 Research Objective

Through quantitative research, this paper solves the following problems:

1. To assess level of Government Policy, Entrepreneurial Leadership, and Management innovation that effect to the success of small and medium-sized enterprises in China's rural communities.

2. To analysis the relationship between three variables influences the success of small and medium-sized enterprises in China's rural communities.

3. To create a model for the success of small and medium-sized enterprises in China's rural communities.

1.5 Significance of research

1.5.1 Academic benefits

For academic research, this study has the potential to contribute to academic research by deepening scholars' understanding of Chinese small and medium-sized enterprises (SMEs) and enriching the existing body of research in this field. By providing new insights and analysis specific to Chinese SMEs, this study fills gaps in the current knowledge base. Researchers will benefit from a more comprehensive understanding of the unique challenges, opportunities, and dynamics that shape the landscape of Chinese SMEs. The study's findings can serve as a valuable resource for future studies, enabling scholars to build upon and expand the existing research, ultimately advancing knowledge in the field of Chinese SMEs and informing future policies and practices.

1.5.2 Policy benefits

For government policy makers, the study's findings will serve as a catalyst for government policy makers, compelling them to devise enhanced policies that foster the growth of small and medium-sized enterprises (SMEs) in rural communities. Recognizing the pivotal role of SMEs in driving economic growth and combating unemployment, policymakers will be driven to address the specific needs and challenges of rural areas. These policies will aim to facilitate targeted initiatives promoting rural SME development, boost economic growth, and create job opportunities. By formulating more effective policies tailored to rural communities, the government will create an environment that nurtures entrepreneurship, stimulates economic progress, and contributes to the reduction of unemployment rates.

2. Literature Review

2.1 Theory

2.1.1 Theory of Resource-Based View

The success of small and medium-sized enterprises (SMEs) in China's rural communities is influenced by a multitude of factors. While there is no single universally accepted theory that entirely explains their success, several frameworks shed light on why SMEs thrive in these areas.

The Resource-Based View (RBV), as proposed by Barney (1991), emerges as a significant theory in explaining the success of SMEs. RBV emphasizes that a firm's competitive advantage and overall success stem from its unique and valuable resources and capabilities. In the context of China's rural SMEs, they can leverage their inherent traits of flexibility, agility, and adaptability to quickly respond to changing market conditions, which can grant them a competitive edge over their larger counterparts. The ability to swiftly adjust strategies and operations becomes particularly valuable in navigating the dynamic and unpredictable rural markets.

Government policies play a crucial role in shaping the trajectory of SMEs in China's rural communities. By implementing supportive policies, the government can grant SMEs access to critical resources, including financial assistance, infrastructure development, and various business support services. Such resources are often limited in rural areas, and by enhancing their availability, the government empowers SMEs to overcome resource constraints, fostering their growth and eventual success (Terziovski, 2010).

Incorporating entrepreneurial leadership into the framework proves to be pivotal for SMEs in rural China. Effective entrepreneurial leaders drive innovation, nurture a culture of creativity, and motivate employees to excel. This visionary leadership helps SMEs identify and capitalize on untapped opportunities in the rural landscape, unlocking their growth potential and market competitiveness.

Furthermore, management innovation emerges as a strategic capability that significantly influences the success of SMEs in China's rural communities. This perspective, as elucidated by Zhang, Khan, Lee, and Salik (2019), emphasizes the importance of developing unique resources and capabilities that are challenging for competitors to imitate or replicate. By encouraging a culture of innovation, SMEs can continuously improve their processes, products, and services, staying ahead of the curve and solidifying their foothold in the market.

To achieve sustainable success for SMEs in rural China, it is essential to intertwine government policies, entrepreneurial leadership, and management innovation within a comprehensive framework. By aligning these critical factors,

rural SMEs can effectively leverage their resources and capabilities, overcome challenges, and thrive in their unique business environment. This framework offers valuable insights into understanding and fostering the growth and success of SMEs in China's rural communities.

2.1.2 Theories related to market failure and government support

In the context of SMEs in China's rural communities, market failure theory plays a crucial role in justifying government intervention. Despite the potential for economic growth and development in these areas, market failures can impede the efficient functioning of markets. For instance, information asymmetry may hinder access to crucial market data for rural SMEs, making it challenging for them to make informed decisions. Additionally, rural areas might lack adequate infrastructure and financial resources, leading to limited access to capital for SMEs in those regions. Moreover, externalities, such as environmental impacts, may not be fully accounted for in the market, affecting the overall welfare of rural communities.

Given these market failures, government policies become essential in supporting SMEs in rural China. By addressing information gaps, providing financial assistance, and implementing regulatory frameworks to manage externalities, the government can create a level playing field for SMEs. Additionally, targeted policies can enhance access to markets and enable SMEs to overcome the challenges posed by market failures, fostering their growth and success in rural communities (Barringer & Ireland, 2019).

Promoting entrepreneurship is also crucial for SMEs in rural areas. By nurturing a culture of entrepreneurship, the government can inspire individuals to take risks and start their businesses, driving economic growth in these communities. Supportive policies may include training and mentoring programs, financial incentives, and simplified administrative procedures for starting and running a business (Audretsch, Keilbach, & Lehmann, 2006).

By fostering a culture of open innovation through supportive policies, the government can create platforms and networks that facilitate knowledge exchange and collaboration between rural SMEs and external partners. This approach can help rural businesses overcome resource constraints, access new technologies, and tap into broader markets, leading to their sustained success and growth (Ayerbe, Dubouloz, Mignon & Marc, 2020).

In conclusion, the framework proposed for government policy, entrepreneurial leadership, and management innovation is reinforced by the concepts of market failure theory, innovation, entrepreneurship, and open innovation. By addressing market failures, promoting innovation and entrepreneurship, and encouraging open collaboration, the government can play a vital role in supporting the success of SMEs in China's rural communities.

2.2 Variable

2.2.1 The success of SMEs

Small and medium-sized enterprises (SMEs) have long been recognized as effective contributors to employment generation and economic growth. Despite extensive research on the factors influencing small business success, a universally agreed-upon definition of SMEs and business success remains elusive (Lampadariou, Kyriakidou & Smith, 2017).

The definition of success can vary depending on the context, perspective, and stakeholders involved. For SMEs, success can be characterized as achieving or surpassing their set objectives. Commonly, financial, economic, and environmental indicators are considered essential factors in evaluating business success, but devising specific variables and reliable measurement methods presents significant challenges (Khuong & Van, 2022).

Although many equate business success with positive profit growth and business size, relying solely on financial performance can be limiting and overlook other crucial aspects of SME success. In the 21st century, success for SMEs is centered around creating human well-being rather than just profitability (Matlon, 2019). Beyond financial performance, success also encompasses non-financial dimensions like social impact, innovation, and sustainability (Maletič, Gomišček & Maletič, 2021).

Effiom & Edet (2018) identified several existing approaches to evaluating SME success: financial indicators, such as enterprise profit; non-financial indicators, like entrepreneur satisfaction; or a combination of both, allowing for a more comprehensive evaluation.

Moreover, defining SME success also involves considering their contributions to the economy and society. SMEs create jobs, spur economic growth, and support local communities. Additionally, they can positively impact the environment, contribute to social development, and drive innovation. Consequently, measuring the social impact and sustainability of SMEs becomes increasingly vital for stakeholders and investors seeking responsible and ethical business practices (ElAlfy, Palaschuk, El-Bassiouny, Wilson & Weber, 2020).

Researchers like Lim & Teoh (2021) have explored various factors influencing SME success. They found that entrepreneurs' personality traits and effective marketing show no significant relationship with SME success, while strategic planning and management exhibit a significantly positive correlation.

In reality, SME success is closely intertwined with their performance. Success is subjective and may relate to the extent of goal achievement, some of which may be pivotal to overall success. Distinguishing the concept of success from performance proves challenging because success can be defined based on specific elements of performance (Simpson, Padmore & Newman, 2012).

As our understanding of business success evolves, there is a growing recognition that financial performance alone does not provide a comprehensive assessment of SME achievements. Emphasizing non-financial aspects such as social impact, sustainability, and innovation offers a more holistic view of success, aligning with changing stakeholder expectations and broader business responsibilities in the 21st century.

2.2.2 Government Policy for support SMEs

Government policy plays a crucial role in regulating various aspects of societal life and achieving collective goals (Mankiw, 2020). It encompasses a set of principles and guidelines formulated and implemented by a government or its agencies to address specific challenges, promote economic growth, ensure social justice, and protect the environment.

In the context of Chinese small and medium-sized enterprises (SMEs), government policies have significant implications for their development. The Chinese government has introduced various policies to support SMEs, with the goal of providing financial assistance, fostering technological innovation, improving market access, reducing tax burdens, and facilitating international market expansion (Jia, Tang, & Kan, 2020).

The impact of government policies on SMEs in China has been notable. These policies have positively affected SMEs by enhancing their access to finance, promoting innovation, streamlining administrative procedures, facilitating market entry, encouraging entrepreneurship, and bolstering international trade (Bisht & Singh, 2020).

However, despite the positive effects, challenges persist for SMEs in China. Difficulties in securing financing, compliance with regulations, technology gaps, and heightened global competition pose ongoing concerns that require concerted efforts to address (Veronica et al., 2020).

In recent years, government policies have faced evolving challenges driven by global trends and emerging issues. These challenges include the digital transformation of economies, the urgent need to combat climate change, social justice considerations, and the response to public health crises (Calderón, 2021; Hoffer, 2023; Yadav, Rayamajhee, Mistry, Parsekar, & Mishra, 2020).

A comprehensive understanding of the dynamics and challenges faced by SMEs in the context of government interventions is essential. Further research in this area can shed light on the efficacy of government policies and their implications for SMEs' sustainable growth in China (Abdoul-Azize & El Gamil, 2021).

2.2.3 Entrepreneurial leadership

Entrepreneurial leadership has emerged as a new leadership theory to adapt to the dynamic changes of the 21st century, combining insights from existing leadership and entrepreneurship literature (Mehmood et al., 2021). This concept has garnered increasing attention in both research and practice (Ahmed & Harrison, 2022).

Among peer-reviewed publications, three major perspectives on Entrepreneurial Leadership stand out: the Psychological or Trait-Based viewpoint, the Behavioral Perspective, and the Skills-based approach (Jisheng & Saeed, 2020). Despite extensive research in entrepreneurship and leadership over the years, these concepts remain somewhat ambiguous (Bagheri & Harrison, 2020).

Entrepreneurial leadership is characterized by its emphasis on innovation, risk-taking, and the identification of opportunities, setting it apart from traditional leadership styles. Entrepreneurial leaders excel in creating new prospects and driving innovation.

These leaders possess the ability to recognize opportunities, develop visionary goals, and mobilize key resources to bring their vision to life and create value for their organizations, stakeholders, and society at large (Karim et al., 2019). They are motivated to create social, environmental, and economic opportunities concurrently, unfazed by resource limitations or high levels of uncertainty. Tsetim et al. (2020) further defines Entrepreneurial Leadership as guiding employees towards achieving organizational objectives by recognizing and exploiting entrepreneurial opportunities.

Entrepreneurial leaders also play a pivotal role in cultivating and fostering entrepreneurial behaviors within their organizations. They instill an entrepreneurial spirit throughout the organization by embracing values such as innovation, proactivity, risk-taking, authority, and self-confidence (Li, Makhdoom & Asim, 2020).

These leaders encourage their team members to break away from conventional methods of task execution and channel their energy towards innovative and entrepreneurial actions. By involving employees in developing new ideas and instilling confidence in their implementation, they reshape their members' perceptions of their competencies (Li et al., 2020).

In addition to fostering a culture of organizational innovation, Entrepreneurial Leaders encourage processes that lead to improved organizational performance. This includes the discovery and capitalization of opportunities, creative problem-solving, and the efficient utilization of organizational resources (Sawaeen & Ali, 2020).

In conclusion, Entrepreneurial Leadership represents a distinct approach to leading organizations in the 21st century. It prioritizes innovation, risk-taking, and

opportunity identification, driving organizations to thrive amidst change and uncertainty. By encouraging entrepreneurial behaviors and nurturing a culture of innovation, Entrepreneurial Leaders create value for their organizations and society as a whole.

2.2.4 Management Innovation

The literature on innovation has shown a noticeable bias towards technological innovation (TI) compared to management innovation (MI), with a greater number of publications focused on TI. Peris-Ortiz and Hervás-Oliver (2013) have highlighted this discrepancy, pointing out the dominance of research on technological advancements in the innovation field. While technological innovation receives significant attention, management innovation, which involves novel organizational structures, systems, and practices, is relatively understudied. However, recognizing the importance of management innovation is crucial for driving organizational success, as it enables the effective implementation and utilization of technological innovations. A more balanced exploration of both technological and management innovation is necessary to gain a comprehensive understanding of innovation and its impact on organizations.

Management innovation lacks a universal definition, but it generally refers to the introduction of new ideas, methods, or practices that bring about significant changes in the way a company is managed and operated. It goes beyond simply improving existing management systems and aims to transform the organization's form and working methods. Different definitions emphasize various aspects of management innovation:

According to Hamel (2006), management innovation is distinct from traditional management, as it brings about substantial changes to the organization's working methods. Mol and Birkinshaw (2009) define management innovation as the introduction of management practices that are new to the firm and intended to enhance firm performance. Volberda (2013) describes management innovation as a series of change activities that improve the fundamental concepts, systems, processes, and structures of an enterprise.

In conclusion, management innovation is a process that fundamentally changes the way a company is managed. It involves introducing new ideas, methods, or practices that can transform various aspects of the organization, aiming to improve performance, increase efficiency, reduce costs, and create new opportunities. It is essential to recognize the significance of management innovation alongside technological innovation to fully harness the potential of innovation for organizational growth and development.

2.3 framework

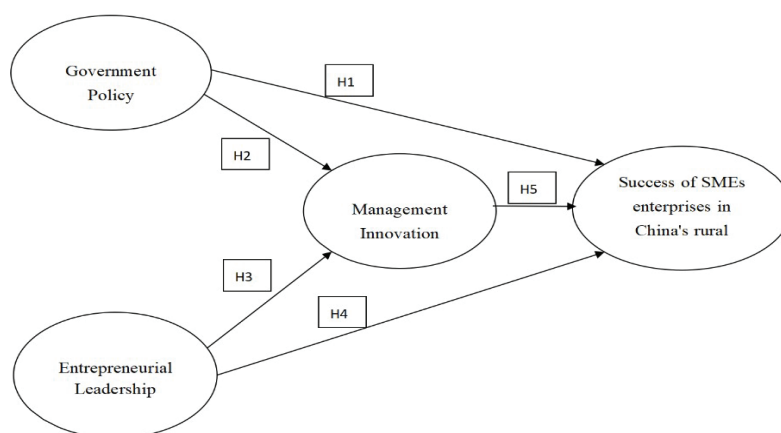


Figure 1. Conceptual Framework

2.4 Hypothesis

H1: Government Policy has a significant positive impact on the success of SMEs in China's rural communities.

Government support significantly influences the success of small and medium-sized enterprises (SMEs) in various aspects. Research shows that government funding initiatives positively impact SMEs' access to finance, promoting viability and expansion (Nurunnabi, 2020). Effective regulatory frameworks enhance financial inclusion for SMEs (Fouejieu, Ndoye, & Sydorenko, 2020), while financial assistance during the COVID-19 pandemic determines SME survival (Adam & Alarifi, 2021). Moreover, export promotion programs and diplomatic support from governments facilitate SME marketing efforts and internationalization, resulting in improved international performance (Catanzaro & Teyssier, 2021). Skills training initiatives provided by government organizations equip SMEs with essential knowledge and competencies, contributing to better performance (Nkwabi & Mboya, 2019). A comprehensive approach combining financial support, regulatory streamlining, and entrepreneurial skill development is crucial for promoting SME growth (Surya, Sjafai, & Alwi, 2021). However, the impact of government policies on SMEs varies based on contextual factors, industry characteristics, and organizational circumstances (Pulka, Ramli, & Mohamad, 2021). Policymakers should consider these factors when designing and implementing effective support policies. Future research could explore interactions between different government policies and their combined effects on SME success, providing comprehensive insights for policymakers (Adam & Alarifi, 2021).

H2: Government Policy has a significant positive impact on Management innovation.

Research on the impact of government policies on firm innovation has primarily focused on technological innovation, with limited attention to non-technological or managerial innovation. While there has been a gradual increase in studies on management innovation, research on the impact of government policies on this aspect remains relatively sparse. Government funding positively contributes to innovation performance, with its effectiveness influenced by factors such as management level, innovation quality, industry, and subsidy size and continuity (Xu et al., 2023). Sung (2019) found a bidirectional causal relationship between firms' innovation and research and development (R&D) subsidies, indicating reciprocal influences. Government regulations play a significant role in promoting technological innovation. Protection of intellectual property rights (IPR) and corporate social responsibility (CSR) oversight enhance enterprise innovation performance (Zheng, Li, & Liu, 2021). China's carbon emission trading system positively impacted innovation quantity and quality (Hu, Pan, & Huang, 2020). Government support programs also contribute to enterprise innovation. Technology development assistance is linked to patent acquisition among SMEs (Doh & Kim, 2014). However, the effectiveness of such support depends on factors like market orientation, management methods, and legal frameworks for innovation (Novikov, 2018). Overall, the literature highlights the importance of government funding, regulations, and support programs in fostering firm innovation, while acknowledging contextual influences on their effectiveness. However, more research is needed on non-technological and managerial innovation's impact to gain a comprehensive understanding of government policies' role in promoting overall innovation in enterprises.

H3: Entrepreneurial Leadership has a significant positive impact on Management innovation.

Existing academic studies emphasize the relationship between leadership and enterprise innovation, particularly exploring various leadership styles' impact on innovation behavior. Transformational leadership is associated with exploratory and ambidextrous innovation, while servant and ethical leadership promote service innovative behavior and organizational innovation (Mihardjo et al., 2019; Hou et al., 2019; Berraies & Zine El Abidine, 2019; Su et al., 2020; Shafique et al., 2020; Hansen & Pihl-Thingvad, 2019). Regarding entrepreneurial leadership and enterprise innovation, research highlights its crucial role in promoting innovation in SMEs. Entrepreneurial leadership positively influences employees' innovative behavior, individual/team creativity, and innovation work behavior (Akbari et al., 2021; Mehmood et al., 2021; Mehmood et al., 2022). However, the relationship is complex, with factors like knowledge sharing and innovation climate mediating this association (Abualoush et al., 2022; Malibari & Bajaba, 2022; Hoang et al., 2022; Iqbal et al., 2022). Studies also demonstrate a positive relationship between leadership and management innovation, with

transformational leadership significantly impacting consumer goods management innovation (Purwanto et al., 2021). Climate for creativity mediates the relationship between leadership and management innovation (Hassi, 2019; Karatepe et al., 2020). Overall, the literature emphasizes the positive impact of leadership, including entrepreneurial leadership, on enterprise innovation and its potential influence on managerial innovation, though direct research on the relationship between entrepreneurial leadership and managerial innovation is limited. Further investigation is needed to comprehensively understand entrepreneurial leadership's role in promoting innovation in enterprises.

H4: Entrepreneurial Leadership has a significant positive impact on the success of SMEs in China's rural communities.

Entrepreneurial leadership is a key factor in the success of small and medium-sized enterprises (SMEs) across different countries and industries. Numerous studies have consistently shown its positive influence on organizational performance and innovation. For instance, Nguyen et al. (2021) found that entrepreneurial leadership enhances IT SMEs' performance, with team creativity, dynamic capabilities, and competitive advantage mediating the relationship. Sawaeen and Ali (2020) discovered that entrepreneurial leadership, along with a learning orientation, positively affects organizational performance based on a survey of 500 SME owners and CEOs in Kuwait. Similarly, NAUSHAD (2021) inferred that entrepreneurial leadership has a positive influence on SME performance in Saudi Arabia, emphasizing its critical role. Paudel (2019) revealed that entrepreneurial leadership significantly and positively affects organizational performance among SME owners in Nepal. Imran and Aldaas (2020) highlighted the positive impact of both perceived organizational support (POS) and entrepreneurial leadership on SME performance in Oman. Gender-specific leadership dynamics were found to significantly influence firm performance in Ghana (Quaye & Mensah, 2019). Simić et al. (2020) emphasized the importance of entrepreneurial leadership and human capital in SMEs' performance in Serbia, with human capital mediating the relationship. Overall, the literature suggests that entrepreneurial leadership drives SME performance, fosters innovation, and improves competitiveness, especially in innovation-driven industries.

H5: Management innovation has a significant positive impact on the success of SMEs in China's rural communities.

Innovation is widely recognized as a critical driver of firm success. Nemlioglu and Mallick (2020) found that, in emerging economies during the post-crisis era, innovation positively affects firms' valuation, regardless of their debt levels. Regarding management innovation's relationship with firm success, several studies indicate a positive association. Zhang et al. (2019) revealed that management innovation significantly contributes to firm sustainability and

organizational performance based on research involving 304 CEOs and top executives. Sustainability was identified as a partial mediator in this relationship. Additionally, Ozturk and Ozen (2021) observed that management innovation has a stronger positive influence on product and process innovation in service firms and SMEs compared to manufacturing firms and large firms. However, it is important to note that some studies have reported non-significant or negative relationships between management innovation and SME performance. These findings suggest that the impact of management innovation on SMEs may be influenced by contextual factors, industry characteristics, or specific organizational circumstances. Further research is required to gain a deeper understanding of the nuanced relationship between management innovation and SME performance.

Conclusion and Discussion

This paper reviews and summarizes the current status of rural SME development in China. It conducts a literature review based on relevant studies, sorts out four variables, namely, "SME success", "government policy", "entrepreneurial leadership" and "management innovation", and proposes five corresponding research hypotheses in an attempt to clarify the relationship between government policy, entrepreneurial leadership, management innovation, and the success of SMEs in China's rural communities, as well as their mutual influences, thus providing theoretical references and research bases for subsequent studies in the development of SMEs in rural communities in China.

This study emphasizes the critical role of government policies, entrepreneurial leadership, and managerial innovation in promoting the success of SMEs in rural China. Proactive policies that incentivize rural entrepreneurship, simplify regulations, and provide financial support create an enabling environment for SMEs. Entrepreneurial leaders, through their adaptability and vision, guided firms through challenges and fostered a culture of innovation. Management innovations such as lean practices and digitalization are adopted to optimize operations and ensure the long-term viability of rural SMEs.

The implications of this study are important for different stakeholders. Policymakers must prioritize targeted policies that address the challenges of rural SMEs and continuously adapt to their needs. Entrepreneurs should focus on honing their leadership skills, seeking guidance, and collaborating to overcome common obstacles. Academia should further investigate the dynamics of rural SMEs to validate and refine the proposed framework. Development organizations can use these insights to design capacity building interventions for sustainable economic growth in rural areas.

In conclusion, the success of rural SMEs in China relies on a symbiotic

relationship between government policies, entrepreneurial leadership, and managerial innovation. Adopting this holistic approach provides an opportunity to unleash the potential of rural entrepreneurs to promote prosperity in these areas and contribute to the overall development of the country. However, due to the author's limited energy and ability, the rationality of the proposed research variables and model construction needs to be further investigated, and how to study the model needs to be further explored.

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