

# Research on government's innovation and entrepreneurship support policies for small and micro enterprises

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**Abstract:** Micro and small enterprises are essential components of the socialist market economy, serving as a driving force for the development of the national economy and an indispensable powerhouse in our country's economic progress. Exploring how the government can formulate precise and effective policies to support the growth of micro and small enterprises has become an urgent challenge to address. To this end, this article takes policies for fostering innovation and entrepreneurship in micro and small enterprises as its research subject. It investigates the current status and issues of local government policies aimed at supporting innovation and entrepreneurship in these enterprises. In response to these issues, comprehensive strategies are proposed to facilitate the better and faster development of micro and small enterprises. The paper starts by introducing relevant theories and concepts related to promoting business development, followed by a review of the current policies supporting micro and small enterprises. Subsequently, focusing on micro and small enterprises as the research targets, an analysis of the role of government policies in promoting their growth is conducted. The deficiencies in the existing support policies are identified, and solutions are put forth to address these shortcomings. These solutions include the establishment of specialized institutions, policy advocacy campaigns, and incentives for talent attraction and support. These recommendations offer valuable insights for further refining policies.

## 1. Introduction

Once the policy of "Mass Entrepreneurship and Innovation" was introduced, it triggered a new wave of "mass entrepreneurship" and a new trend of "mass innovation" in China. It can be said that entrepreneurship and innovation have become the prevailing theme in China's current economic development [1]. Both at the central and local levels, the government is vigorously promoting mass entrepreneurship and innovation to facilitate the development of micro and small enterprises. On one hand, innovation and entrepreneurship have invigorated micro and small enterprises, leading many of them to grow rapidly like sprouting bamboo shoots after rain. On the other hand, micro and small enterprises are pushing entrepreneurship and innovation to a larger scope, higher level, and deeper extent [2]. This mutually beneficial relationship has led governments at all levels to increase policy support for entrepreneurship and innovation in these enterprises. Amid the gradual slowdown of global economic growth and China facing internal challenges, since the 2008 financial crisis, China's economic growth rate has declined from 13% GDP growth in 2007 to 6.6% in 2018. However, micro and small enterprises have maintained a rapid growth trajectory, becoming a vital support for employment expansion. The emergence of innovative micro and small enterprises, in particular, has provided new momentum for the transformation of the economic structure under the new normal, highlighting their increasingly prominent role [3].

As of the end of 2018, China had over 30 million small and medium-sized enterprises and over 70 million individual businesses. These entities contributed to over 50% of the national tax revenue, more than 60% of the GDP, over 70% of technological innovation achievements, and over 80% of labor force employment [4]. Clearly, stable growth and employment are inseparable from the development of micro and small enterprises. Their role in employment absorption and enhancing market economic vitality is becoming increasingly vital, making them an integral and independent component of the national economic development [5].

This paper primarily adopts a perspective from the field of public administration, approaching

the government as a public administrator. It explores and studies the public policies launched by the government, aiming to derive public policies that are suited to societal needs and development. Through the study of public policies, it clarifies that the government needs to change its governance concept, striving to become a service-oriented government. The shift should transform the governance mode from the previous "regulatory model" to the present "service model," with public policies also oriented towards providing services. Governments at all levels should place serving micro and small enterprises as their mission, utilizing supportive policies as vehicles to offer precise and effective services to these enterprises [6].

## **2. Domestic policy**

China's earliest research on micro and small enterprises began in 2001 when relevant national departments established standards for classifying small and medium-sized enterprises. These standards further divided small enterprises into small-sized enterprises and micro-sized enterprises. Subsequently, scholars began to take interest in and research micro and small enterprises, with the initial focus being on their financing issues. In 2001, Justin Yifu Lin pointed out that the most prominent challenge in the development of micro and small enterprises was not anything else but the issue of funding. Due to their limited capital and lower credibility, large financial institutions typically did not provide financing to micro and small enterprises, leaving this role to smaller financial institutions. Many scholars recommended that the government introduce supportive policies to help micro and small enterprises overcome these challenges.

In recent years, governments at various levels in China have successively introduced numerous policies and regulations to support the development of micro and small enterprises. The "Law of the People's Republic of China on Promoting the Development of Small and Medium-sized Enterprises," issued in 2002, was China's first legislation aimed at improving the business environment for small and medium-sized enterprises, ensuring their fair participation in market competition, safeguarding their legitimate rights and interests, supporting their entrepreneurship and innovation, and promoting their healthy development. In 2017, the "Law on the Promotion of Small and Medium-Sized Enterprises" underwent revision, and the new version of the law provided legal basis for the development of China's small and medium-sized enterprises from aspects such as financial and tax support, financing promotion, entrepreneurship assistance, innovation support, market expansion, and service measures.

## **3. Current Situation Analysis**

### **3.1 Existing problem**

(1) **Difficulty in Financing:** Micro and small enterprises often face challenges in obtaining financing due to their small scale and weaker risk-bearing capacity compared to larger enterprises. Despite the ongoing improvement of inclusive financing policies for these enterprises in many cities, several issues persist. Firstly, a one-size-fits-all approach remains, with various proofs, restrictive conditions, and multiple approval processes still required for financing applications. Secondly, the financing amounts provided by policies are often relatively small, limiting support for micro and small enterprises in need of substantial financing. For instance, in Jiangxi Province, within 18 days of its launch, the micro and small client financing service platform received 239 financing requests from enterprises, totaling 920 million yuan. However, statistics show that as of the end of June 2019, the balance of loans for micro and small enterprises in the province was only 108.28 billion yuan, accounting for a mere 32.37% of all loans. Thirdly, many cities have limited and traditional financing channels for micro and small enterprises, mainly relying on bank loans. The effectiveness of specialized venture capital funds for "innovation and entrepreneurship demonstration" in supporting micro and small enterprises is not clearly evident.

(2) **Low Awareness of Policies:** Most enterprises indicate a lack of awareness regarding government support policies for micro and small enterprises, with only vague knowledge of some

tax incentives or innovation rewards. The reasons behind this are twofold. On one hand, existing support policies are formulated and promoted separately by multiple departments, resulting in varying levels of promotion for different policies. On the other hand, the methods used to communicate policies to enterprises are relatively uniform, mainly involving distributing brochures in government service halls and providing policy consultations in entrepreneurship parks. This limited reach of the promotional methods contributes to low awareness of certain policies.

(3) Shortcomings in Policies for Talent Attraction and Incentives: While many cities have gradually introduced long-term talent development plans since 2010, there is a noticeable gap in policies specifically targeting the introduction and incentives for entrepreneurial and innovative talents in micro and small enterprises. Talent attraction and incentive policies in many cities mainly focus on attracting high-level and high-skilled talents, such as distinguished experts. However, there's limited consideration for talents with entrepreneurial experience beyond these high-level categories. Furthermore, while some policies support the innovation and entrepreneurship of technical personnel in public institutions, they often exclude technical personnel in private enterprises. Therefore, the current talent policies have limited effectiveness in providing support for micro and small enterprises.

### **3.2 Cause analysis**

(1) Complex Administrative Structure: While many cities have departments dedicated to small and medium-sized enterprises within their Industry and Information Technology Bureau, these city-level departmental structures have limited functions. The leadership group for "innovation and entrepreneurship demonstration" primarily reviews policy documents through meetings. The specific implementation details of policies are formulated and managed by multiple functional departments such as finance and taxation. This complexity results in micro and small enterprises needing to communicate with multiple departments and submit multiple applications to access policy support. For instance, a micro and small enterprise entering an entrepreneurship park needs to coordinate with the park's investment promotion department, interact with the taxation department for tax incentives, and connect with the technology department for innovation certification. The regulations of these departments vary, leading to challenges in the application and processing procedures for micro and small enterprises.

(2) Insufficient Promotion Efforts: Micro and small enterprises, due to their limited size and staff, lack the resources to actively engage with the government to obtain information, unlike larger enterprises. Support policies are currently formulated by multiple parties, and the promotion of these policies lacks unified standards and specifications, leading to varying levels of effectiveness in promoting different policies. Moreover, due to the frequent updates of many support policies and the wide distribution of micro and small enterprises, comprehensive coverage of policy promotion becomes challenging, resulting in inadequate awareness of these policies among enterprises.

(3) Slow Progress in Talent Attraction: Currently, many cities tend to emphasize the introduction of high-level and high-skilled talents in their talent policies, without tailoring talent attraction policies specifically for micro and small enterprises. There's a lack of supportive policies, especially for the general talents required by micro and small enterprises. The policies often focus on high-level talents, leaving behind non-high-level talents that micro and small enterprises often need, such as technical and marketing talents. It can be said that many city-level talent policies are relatively narrow and lack provisions for micro and small enterprises. They mainly prioritize high-level talents, which might be out of reach for these enterprises and thus lack effective support.

## **4. Suggestion**

### **4.1 Establish Specialized Administrative Institutions**

To better support micro and small enterprises, cities should seize the opportunity to create national dual-creation (innovation and entrepreneurship) demonstration base cities. Starting from innovation and entrepreneurship policies, cities can initiate institutional innovations and establish

specialized management institutions for micro and small enterprises at the municipal level. These institutions would be responsible for unifying the development and implementation of a series of policies aimed at micro and small enterprises. This approach can achieve two goals: firstly, it can streamline the formulation and issuance of various support policies for micro and small enterprises, making it easier for these enterprises to access information and process applications; secondly, it can consolidate comprehensive information on micro and small enterprises, allowing for a better understanding of the difficulties and needs they face. This understanding can lead to more targeted and accurate support policies.

Currently, there's a shortage of social organizations that serve micro and small enterprises, such as financing guarantee agencies, financing leasing companies, and information consulting intermediaries. The government can encourage the establishment of more such organizations through policy incentives. Additionally, leading the construction of a complete micro and small enterprise service system is crucial. By leveraging micro and small enterprise incubation centers and entrepreneurship parks, cities can provide consultancy, financing, and technology services to address the various challenges micro and small enterprises encounter at different stages of development. This approach can expand the range of support from the early stages of entrepreneurship to encompass the entire development process of micro and small enterprises.

#### **4.2 Strengthen Policy Promotion**

For all support policies targeting micro and small enterprises, the government should increase promotional efforts. Firstly, utilize various media to enhance the social awareness of policies, allowing the policy recipients to learn about policy specifics through multiple channels. Secondly, provide clear interpretations and releases of support policies through authoritative official channels. This can address specific implementation details and help policy recipients understand the policies better, ensuring smooth policy execution.

Policy promotion should cater to various types of micro and small enterprises and their respective support policies. For instance, centralized on-site presentations could be provided for enterprises in entrepreneurship parks, while promotional campaigns could emphasize entrepreneurship guarantee policies for recent graduates. Tailoring promotion methods based on the characteristics of the policy recipients can yield effective promotion outcomes.

#### **4.3 Enhance Talent Attraction**

Talent is a vital resource for enterprise development, and supporting the development of micro and small enterprises necessitates the attraction and incentives of talent. Many founders of micro and small enterprises themselves possess entrepreneurial talents. Attracting and retaining these entrepreneurs requires more widespread talent attraction and incentive policies. Firstly, it's crucial to prioritize attracting and incentivizing entrepreneurial and technical talents. Lowering the threshold for urgently needed and scarce positions, creating a green channel for talent introduction, and facilitating high-end talent supply can address the high-end talent demands of micro and small enterprises. Secondly, breaking free from qualifications and educational constraints is important. This means not only focusing on high-education, high-level leading talents, but also incorporating micro and small business owners and entrepreneurial talents into the talent introduction system. The scope of talent attraction should expand to include business, operational, and management talents with significant work experience. Furthermore, due to the impact of their small size and limited information resources, micro and small enterprises often face challenges in talent recruitment. To address this, the government can offer recruitment assistance, policies for micro and small enterprise employees, and other measures, creating a policy environment conducive to innovation and entrepreneurship.

To enhance the operational management capabilities and innovation levels of micro and small enterprises, the government can collaborate with social training institutions, universities, research institutes, etc. Through entrepreneurship parks, a platform for training micro and small enterprises can be established. This platform can provide free consulting services in professional training, operational management, accounting, etc., and conduct expert guidance, free classes, and other

activities to foster talent among micro and small enterprises.

To further refine existing talent incentive policies, more competitive incentive measures can be introduced. This could involve continued refinement of traditional incentives like residency permits, housing subsidies, and school enrollment. Additionally, exploring new incentive policies such as healthcare benefits for talents, startup funding, and copyright options can be considered. Flexibility in attracting talents can be achieved by establishing talent management, assessment, and incubation mechanisms, offering legal, intellectual property, and financial system training for entrepreneurs. By providing comprehensive and tailored services, micro and small enterprises can ensure that talents are engaged wholeheartedly and without burdens, thereby facilitating their innovative endeavors.

## 5. Conclusion

Through the study of policies supporting innovation and entrepreneurship in micro and small enterprises, we have analyzed various issues and underlying reasons in the process of policy implementation. Building upon this analysis, we have provided recommendations to address these challenges. This study has predominantly focused on delving into the policies that facilitate innovation and entrepreneurship in these enterprises. In doing so, we have identified several challenges within this context: Firstly, the series of policies supporting innovation and entrepreneurship for micro and small enterprises are excessively broad. Secondly, there's a lack of awareness among micro and small enterprises regarding supportive policies such as tax incentives. Lastly, the policies for attracting and incentivizing talent within micro and small enterprises are inadequate. In response to these issues, the following recommendations are put forward: Firstly, establish dedicated institutions to manage the support policies for micro and small enterprises. Secondly, intensify efforts to promote the awareness of broad-spectrum supportive policies. Lastly, tailor talent attraction policies and formulate corresponding incentives to address these specific issues. In summary, this study aims to provide insights into policies supporting innovation and entrepreneurship in micro and small enterprises. By identifying challenges and proposing feasible solutions, it contributes to the improvement of these policies and ultimately fosters a more conducive environment for the growth of micro and small enterprises in our country.

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