

CHAPTER 1

INTRODUCTION

1.1 Statement of the Problem

1.1.1 Background

1.1.1.1 Agriculture and national economic development

Agriculture is the most important primary industry in China. Agriculture and its related fields absorb almost 80% of the total labor force. And about 80% of the total population live in rural areas.

For a long time, agriculture offered the surplus labor, capital, and land to support industrial development. The problems have emerged, i.e. decreasing arable land, less agricultural capital accumulation and lack of institutional supports. Chinese government has realized that rural development is the nucleus of economy development of China in the next century. It is clear that the whole economy needs a balanced structure, and agriculture should not suffer the heavy burden any more. It is a critical task for Chinese government to accelerate the rural development, with that to push the national economic development.

1.1.1.2 Agricultural industrialization and rural development

Rural areas in China have been going through a period of major institutional reform and economic development since 1978. It is commonly known that the Chinese government has initiated rural reform and programs with an emphasis on two major strategies. The first emphasis involves a new system of incentives, or the family production contract responsibility system that individuals can generate foods and farm income for their households. The second emphasis involves rural enterprises (RE), especially private enterprises are allowed to set up and run privately by farm households. Under the new policy, farm families are able to set up micro or small

enterprises and sell their products freely in the markets. As a result, the economic system has developed and rural industrialization (see Figure 1.2 Agricultural Industrialization System on page 7) has been rapidly grown in many areas of China.

Agricultural industrialization, as a new integrated strategy, gives significant impacts on rural development and national economic development. In this complex system, rural enterprises sector, is the linkage between rural resources (such as surplus labor and capital) as well as farm products and outside markets. RE is one of the backbones of rural industrialization along with rural infrastructure, financial institutions, information services, and farmer cooperatives.

1.1.1.3 Historical development of rural enterprise in China

Since the 1980s, while Chinese government started the economic reform and opened market policies, rural enterprises have been playing a vital role in the process of national economic development.

Table 1.1 Comparison of RE Development in China (in selected years)

Entity	Year 1979	Year 1990
Numbers of RE (million)	0.79	7.22
Employees of RE(million)	17.34	55.72
Proportion in total industrial labor force	28.5%	46.3%
Gross Output Value (billion Yuan)	38.5	709.7
Proportion in total industrial sector	9.1%	29.8%

Source: China State Statistics Bureau, 1992

There are three stages in the process of rural enterprise development in China:

1. Initial stage (1978-1984)
2. Rapid development stage (1985-1990)
3. Transition stage (since 1991)

(Figure 1.1 shows the rapid development of RE during each stage.)

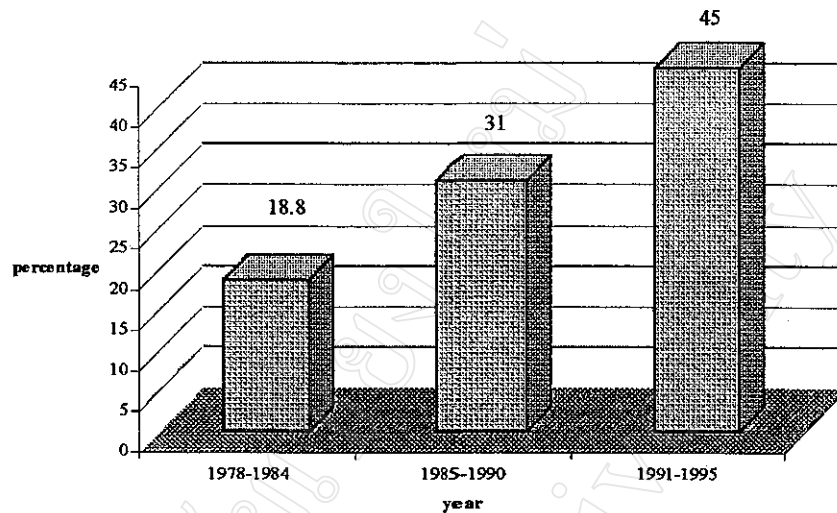


Figure 1.1 Proportion of RE in national net added value

Source: Administration of Agriculture of China, 1996

1.1.1.4 Significance of rural enterprises in Chinese economy

In 1996, one fourth of GNP, three fifths of net added value in rural area, almost half of net added industrial output value, one fourth of national financial revenue, one third of export value, and one third of farmers' income are contributed by rural enterprises. There are two main effects of rural enterprises in China's economic development. Both are critical for Chinese national economic development, of which are:

- They absorb the surplus rural labor and increase employment.
- As a linkage of rural resources and market, they push the rural development.

Rural areas in China have been going through a period of major institutional reform and economic development since 1978. It is commonly known that the Chinese government has initiated rural reform and programs with an emphasis on two major strategies: firstly, emphasis involves a new system of incentives, or the family production contract responsibility system, through which individuals can generate

foods and farm income for their households. The second emphasis involves rural enterprises (township and town enterprises), private enterprises, which are allowed to set up and be run privately by farm households. Under the new policy, farm families are able to begin micro and small enterprises and sell their products freely in the markets. As a result, the economic system has changed and rural industrialization has developed in many areas of China since 1984.

Rural enterprises in China are defined by equity ownership of the enterprises that are owned collectively by rural governments, or privately by rural households and by any joint investment of government and farm households. In general, rural enterprises are referred to as township-level enterprises, village-level enterprises or private enterprises with location in rural areas. Based on rural industrial structure system, rural enterprises are classified into two main types including rural industry enterprise and rural agro-industry enterprise.

In contrast to the traditional pattern of economic development characterised by industrialisation concentrated in the urban sector, many countries have recently experience a period of decentralisation of industrial development, and concurrently the diversification of their rural economies (OECD, 1986).

Rapid rural industrialization has occurred in China during the 1980s. From 1978 to 1990, the number of rural enterprises firms increased from 790 thousand to 7.22 million, the number of employees increased from 17.34 million to 55.72 million, and the total gross output value of rural industry, in terms of current prices, increased from Y38.5 billion to Y709.7 billion. Consequently, the share of rural enterprises in China's total industrial sector rose from 9.1 percent to about 29.8 percent in terms of gross output, and the total industrial labor force increased from 28.5 percent to 46.3 percent in this period (China State Statistics Bureau, 1992). The rapid expansion of rural enterprises in China is widely believed to be the instrument for rural industrial sector development and economic growth.

Henan is a large agricultural and one of the most populous provinces in China. Its cultivated area covers nearly 7 million hectares and makes up about 7% of the whole nations and its agricultural population accounts for 85% of 91.72 million people in Henan. Such a huge amount of rural labour (almost 78 million people), consequently results in a problem of the excess labour resource in rural area.

Rural Enterprise (RE), as one of main sectors of agricultural industrialization, functioning as the engine of rural economy, plays very important roles in the development of both rural economy and whole provincial economy in Henan.

- 1) The first, as an agro-industrial sector, it absorbs the surplus rural labor, increases employment, progresses income equity, as well as improves the quality of rural labor.
- 2) The second, as a linkage between agricultural resources and markets, it facilitates the agricultural production, satisfies the ultimate demand, and finally progresses the development of rural economy.

However, because of the change of government policies in the early 1990s, other types of enterprises (*state-owned enterprises, urban private enterprises, joint ventures and foreign owned enterprises etc.*) can utilize their own advantages more effectively. This brought two environmental threats to the further development of local RE as follows (see Figure 2 below),

- 1) Market structure changed from seller's market to buyer's market; and
- 2) Market competition became much more intensive in almost all levels.

"Market orientation", as a term of the implementation of the marketing concept in a business organization, is a set of specific behaviours and activities, a resource, a basis for decision making, or an aspect of organizational culture.

Some research approaches were developed in order to study market orientation, such as: a strategy perspective (Corey and Star 1971; Day 1994); an organisational design perspective (Webster 1992); a market information processing perspective (Deshpande and Zaltman 1982, Melon and Varadarajan 1992, Moorman 1995); a product and service customisation perspective (Pine, Victor, and Boynton 1993), and a network perspective (Haeckel 1995).

The purpose of conducting market orientation management is to improve the delivered value to customers and hence the competitiveness of business through an organizational conduct of individual firms.

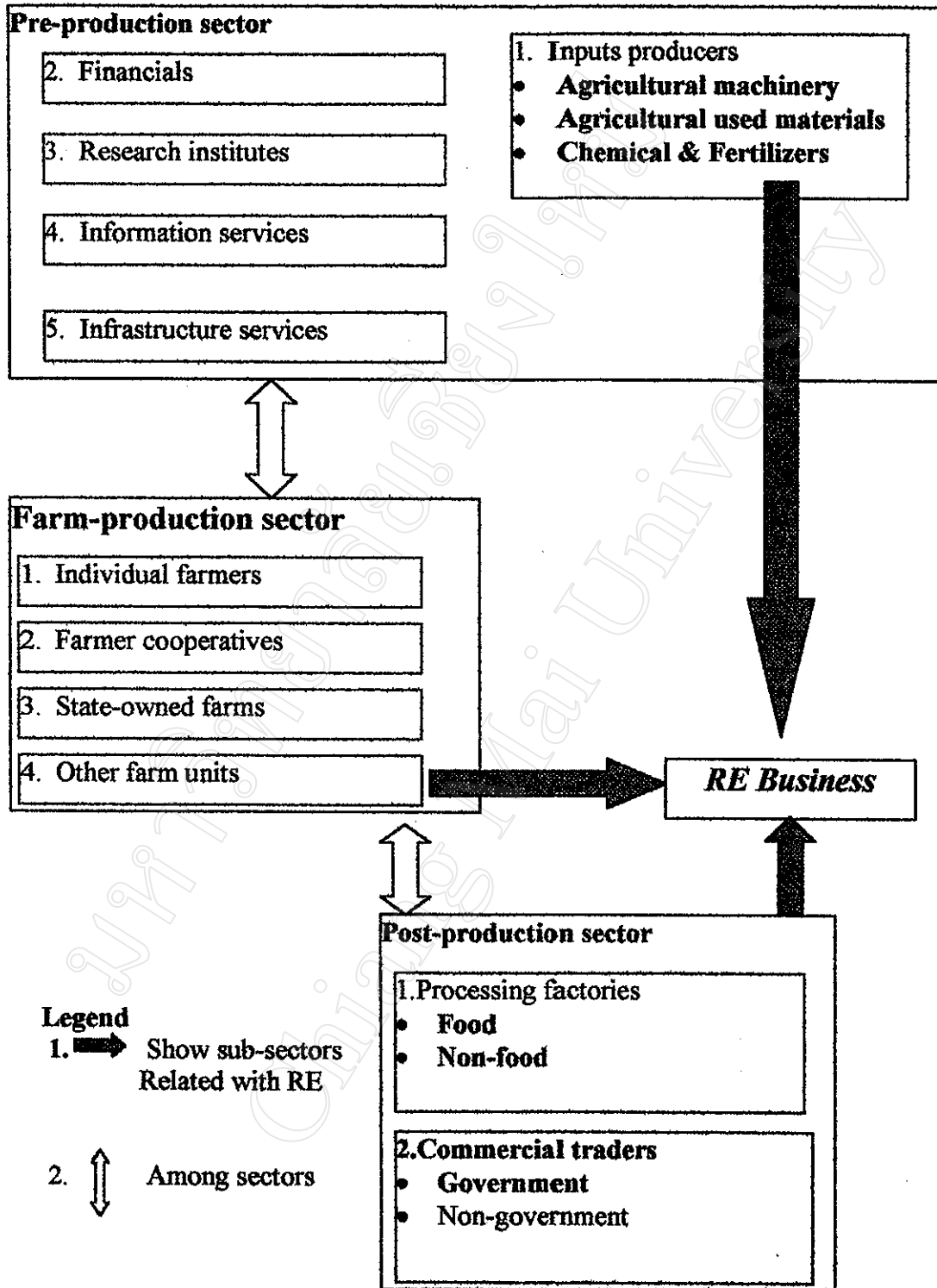


Figure 1.2 Agricultural Industrialization System

1.1.2 The Problem

There are still many problems faced by Chinese rural enterprises. With intensive market competition, the challenges facing rural enterprises are being increased. Many deep-seated problems are exposed, the two greatest being unclear equity ownership, and unclear rights and responsibilities between government and enterprise functions. The competitive power of many products is decreasing as a result of these problems. All of this leads to a lower effectiveness and lower motivation among employees. Many administrators observantly feel the unprecedented difficulties that are facing them.

SWOT analysis of rural enterprises in Henan

This SWOT analysis provides a general picture of small and medium sized rural enterprises in Henan province, excluding the exceptional cases of large-scale REs with strong institutional support. Those large-scale REs have capital, labor, technical and information advantages, some of them even have been able to compete with other types of enterprises such as state-owned, foreign- invested, or joint venture enterprises.

Strengths

1. Experiences for rural marketing due to long-term operation in rural areas;
2. Low labor cost;
3. Cheap raw materials;
4. Good location to serve consumers (rural residents).

Weaknesses

1. Capital shortage;
2. Low technological level (results in decreasing arable land and serious environmental pollution, which directly affect agricultural production);
3. Low labor quality;
4. Lack of related information;
5. Deficient transportation facilities;

6. Unfavorable management, exists on two aspects:
 - 1) Ineffective organizational structure
 - 2) Disorder internal management
7. Inappropriate improvement of technology.

Opportunities

1. Expanded agricultural production;
2. Good knowledge of rural consumers' taste, belief as well as demand increasing rural residents' income, increasing rural demands for varieties of goods;
3. Other types of enterprises have not been able to pay more attention on rural market.

Threats

1. Market structure changed from sellers' market to buyers' market;
2. Market is becoming highly competitive (Due to the change of government policies on RE, other types of enterprises, state-owned enterprises, urban private enterprises, joint-ventures and foreign owned enterprises etc., can exert their own advantages in technology, human resource, management, marketing and so on).

How to face this new challenge of marketplace? What is the way out? Researchers thought that adapting to the changing environment and increasing the vital force by reforming, depending on technology to develop the organization and earning benefit from administration would be the answer.

However for many years, Chinese researchers paid attention to study the rural enterprises' roles in improving rural employment and rural households' income. Nowadays, one imperative problem for RE is how to improve its marketing strategic management to gain the competitive advantage. An efficient approach to solve this problem is being developed and used in market-oriented management. Since 1960s, many western scholars were engaged in researching market orientation to help solve the similar problem. Unfortunately, few domestic studies have been done in quantitatively analysing the business management of RE in China.

In this study, I intend to follow some western scholars' methods to make an empirical study on market orientation management of rural enterprises in Henan province, China.

1.2 Objective of the Study

The general objective of the study is to describe the evolution of RE development in Henan province, as well as to investigate the current situation of market orientation management of rural enterprises in Henan, respectively as follows,

- 1) To identify some preconditions that may affect the implementation of market orientation management in rural enterprises of Henan province;
- 2) To evaluate the effects of market orientation management on business performance;
- 3) To exam the influences of the moderating factors on the relationship between market orientation management and business performance based on empirical analysis.

1.3 Usefulness of the Study

The purpose of this study is to empirically test several hypotheses regarding antecedents and consequences of a market orientation. The results will be used in:

- 1) Suggesting managers or executives: to strive to improve the market orientation of their businesses in their efforts to attain higher business performance.
- 2) Advising government officers: to take into account of RE's interests while framing the relevant policies.

1.4 Hypotheses of the Study

There are twelve hypotheses in this study. The first eight hypotheses are related to the preconditions of the market orientation management, the last four hypotheses are about the relationship between market orientation management and business performance.

- 1) The greater the top management emphasis on a market orientation, the greater the (1) market intelligence generation, (2) intelligence dissemination, and (3) responsiveness of the organization.
- 2) The greater the risk aversion of top management, the lower the (1) market intelligence generation, (2) intelligence dissemination, and (3) responsiveness of the organization.
- 3) The greater the interdepartmental conflict, the lower the (1) market intelligence dissemination, and (2) responsiveness of the organization.
- 4) The greater the interdepartmental connectedness, the greater the (1) market intelligence dissemination, and (2) responsiveness of the organization.
- 5) The greater the formalization, (1) the lower the intelligence generation, dissemination, and response design and (2) the greater the response implementation.
- 6) The greater the centralization, (1) the lower the intelligence generation, dissemination, and response design and (2) the greater the response implementation.

- 7) The greater the departmentalization,(1) the lower the intelligence generation, dissemination, and response design and (2) the greater the response implementation.
- 8) The greater the reliance on market-based factors for evaluating and rewarding managers, the greater the (1) market intelligence generation, (2) intelligence dissemination, and (3) responsiveness of the organization.
- 9) The greater the market orientation of an organization, the higher its business performance.
- 10) The greater the market turbulence, the stronger the relationship between a market orientation and business performance.
- 11) The greater the competitive intensity, the stronger the relationship between a market orientation and business performance.
- 12) The greater the technological turbulence, the weaker the relationship between a market orientation and business performance.

1.5 Literature Review

1.5.1 Several Definitions of Market Orientation

Slater and Narver (1995) defined market orientation as “the *culture* that (1) places the highest priority on the profitable creation and maintenance of superior customer value while considering the interests of other stakeholders; and (2) provides norms for behavior regarding the organizational development and responsiveness to market information”.

Day (1994) viewed market orientation to be “a market-driven *culture* supports the value of thorough market intelligence and the necessity of functionally coordinated action directed at gaining a competitive advantage”. In which the *culture* defined as a “sets of shared assumptions and understandings about organization functioning”.

However, Kohli and Jaworski's (1990) definition of market orientation employed in this study as more comprehensive conceptualization of the construct is: “Market orientation is the organization wide *generation* of market intelligence pertaining to current and future customer needs, *dissemination* of the intelligence across departments, and organization wide *responsiveness* to it.”

1.5.2 Two Perspectives on the Content of Market Orientation

Slater and Narver (1990) inferred that “market orientation consists of three behavioral components----customer orientation, competitor orientation, and interfunctional coordination; and two decision criteria----long-term focus and profitability.”

Kohli and Jaworski (1990) suggested that “market orientation includes three elements----Intelligence generation, dissemination, and responsiveness.”

In fact, the former viewed market orientation as an aspect of culture (i.e. values and beliefs); and the latter treated market orientation as a set of behaviors and processes. For the practicability in this study, I prefer the latter one.

It could be seen from the recent studies of China that neither on the government's issues nor on academic papers there were no any quantitative analysis on what the market orientation is, and how to implement market oriented management in any specific enterprises. So, this study is expected to fill this blank in such an important field in terms of the researches of market orientation management.