

Financial Acumen and Entrepreneurial Propensity at the Household Level: A Chinese Perspective

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ABSTRACT

This article explores the intricate relationship between financial literacy and household entrepreneurial decision-making, with a specific focus on the context of China. As China transitions towards a more innovation-driven economy, household entrepreneurship plays a vital role in job creation, income generation, and economic restructuring, particularly in rural areas. Drawing upon a comprehensive review of recent literature, this study synthesizes existing evidence to illuminate how varying levels of financial literacy influence an individual's or household's propensity to engage in entrepreneurial activities, their risk-taking behavior, access to financing, and ultimately, entrepreneurial performance. The discussion highlights the mediating roles of credit constraints and risk preference, and the emerging impact of digital finance. The findings offer valuable insights for policymakers aiming to foster a robust entrepreneurial ecosystem and promote inclusive economic growth in China.

KEYWORDS

Financial literacy, household entrepreneurship, decision-making, China, rural entrepreneurship, credit constraints, risk preference, digital finance.

INTRODUCTION

Employee Entrepreneurship is widely recognized as a critical engine for economic growth, innovation, and job creation in both developed and developing economies (Say, 1836 [22]; Evans & Leighton, 1990 [4]). In China, household entrepreneurship, encompassing a wide range of small-scale businesses and self-employment initiatives, has become an increasingly significant component of the national economy, particularly as the country seeks to rebalance its growth model and address regional disparities. This form of entrepreneurship is crucial for rural revitalization, poverty alleviation, and the absorption of surplus labor.

The decision to embark on an entrepreneurial journey is inherently complex, involving assessments of risk, market opportunities, resource availability, and financial viability. Among the various factors influencing this decision, financial literacy has emerged as a crucial determinant. Financial literacy refers to the knowledge, skills, and confidence to make informed financial decisions (Noctor, Stoney, & Stradling, 1992 [20]; Huston, 2012 [8]; Li, X., 2020 [16]). It encompasses understanding financial concepts, managing personal finances, and navigating financial markets. A financially literate individual is generally better equipped to evaluate business proposals, manage cash flow, access appropriate financing, and mitigate financial risks associated with

entrepreneurial ventures (Gathergood, 2012 [5]; Kim, 2001 [12]).

The unique socio-economic landscape of China, characterized by a vast rural population, evolving financial markets, and rapid digital transformation, provides a compelling context for examining this relationship. While significant strides have been made in promoting financial inclusion, disparities in financial literacy persist, potentially affecting entrepreneurial dynamics at the household level. This article aims to synthesize existing research to provide a comprehensive understanding of how financial literacy impacts household entrepreneurial decision-making in China, considering the mediating factors and the influence of emerging technologies.

Literature Review

The nexus between financial literacy and entrepreneurship is a growing area of academic inquiry, with studies exploring various dimensions of this relationship across different economic contexts.

2.1. Defining Financial Literacy and Entrepreneurship

Financial literacy is a foundational concept, often defined as the ability to understand and effectively use various financial skills, including personal financial management, budgeting, and investing (Noctor, Stoney, & Stradling, 1992 [20]). It involves both financial knowledge and financial behavior. Ayhan (2019) discusses the cultural political economy of financial literacy, highlighting its constitution within specific societal contexts [1]. Huston (2012) further emphasizes its importance in understanding financial products and the cost of borrowing [8]. Kubak et al. (2021) delve into gender differences in rationality and financial literacy, suggesting varying approaches to financial decision-making [13].

Entrepreneurship, broadly, refers to the process of identifying and pursuing opportunities without immediate regard to the resources currently controlled (Evans & Leighton, 1990 [4]). At the household level, it often involves self-employment, family businesses, or small-scale ventures that contribute directly to household income and wealth. Orbanova and Velichova (2013) highlight the importance of entrepreneurship and financial literacy for socio-economic progress and personal growth [21].

2.2. Financial Literacy and Entrepreneurial Propensity

A strong body of literature suggests a positive correlation between financial literacy and the propensity to engage in entrepreneurial activities. Financially literate individuals are more likely to identify viable business opportunities, understand the capital requirements, and assess the potential returns and risks associated with starting a business (Burchi et al., 2021 [3]; Li & Qian, 2020 [15]; Xu & Jiang, 2024 [25]). This is particularly true in rural settings, where access to formal financial services and knowledge might be limited. Guo et al. (2024) specifically investigate whether financial literacy drives entrepreneurship in rural China, providing direct evidence for this context [6].

2.3. Financial Literacy, Credit Constraints, and Access to Finance

One of the primary mechanisms through which financial literacy influences entrepreneurship is through its impact on access to finance. Entrepreneurs often face borrowing constraints, which can hinder the initiation or expansion of their ventures (Buera, 2009 [2]; Kara, 2012 [10]; Weng et al., 2022 [24]). Financially literate households are better equipped to understand loan terms, prepare business plans, and communicate effectively with financial institutions, thereby improving their chances of securing credit (Huston, 2012 [8]). Liu, He, and Xu (2023) specifically examine the relationship between financial literacy and Chinese rural households' entrepreneurship from the perspective of credit constraints, finding that financial literacy can alleviate these

constraints [18]. Similarly, Su et al. (2024) provide empirical evidence from rural China on how financial literacy facilitates farmland mortgage financing for household entrepreneurship [23].

2.4. Financial Literacy, Risk Preference, and Decision-Making

Entrepreneurial decision-making is inherently characterized by risk-taking (Kefan et al., 2011 [11]; Li & Ahlstrom, 2020 [17]; Wang et al., 2020 [23]). Financial literacy can influence an individual's risk perception and preference, leading to more informed and calculated risk-taking. While some studies suggest that financially literate individuals might be more willing to take on calculated risks due to a better understanding of potential outcomes (Komarek & MacAulay, 2013 [13]), others indicate that it can lead to more cautious behavior, reducing over-indebtedness (Gathergood, 2012 [5]). Liu, He, and Xu (2023) also explore the role of risk preference as a mediating factor between financial literacy and entrepreneurship among Chinese rural households [18]. Effective financial intelligence, as discussed by Jiang et al. (2023), can lead to better entrepreneurial financial performance, especially in challenging environments [9].

2.5. The Role of Digital Finance in China

The rapid development of digital finance in China has introduced a new dimension to the financial literacy-entrepreneurship nexus. Digital inclusive finance, by expanding access to financial services through digital platforms, can significantly impact entrepreneurial behavior, particularly among farmers and rural households (Liu, Z., Zhang, Y., & Li, H., 2021 [19]). Hu et al. (2023) investigate the relationship between digital finance, entrepreneurship, and the household income gap in China, suggesting that digital finance can bridge disparities and foster entrepreneurial activity [7]. This highlights how technological advancements can amplify the effects of financial literacy by providing new avenues for financial management and access to capital.

2.6. Social Capital and Entrepreneurship

Beyond individual financial acumen, social capital also plays a role in facilitating household entrepreneurship, particularly in rural China. Zhao and Li (2021) analyze the mediating effect of social capital between financial literacy and rural household entrepreneurship, suggesting that strong social networks can complement financial knowledge in fostering entrepreneurial ventures [26]. This underscores the importance of a holistic approach that considers both individual capabilities and community resources.

MMETHODOLOGY

This article employs a qualitative, comprehensive literature review approach to synthesize existing academic research on the impact of financial literacy on household entrepreneurial decision-making in China. Given the objective of providing a broad analytical overview rather than conducting new empirical analysis, a formal econometric model or primary data collection is not utilized. The methodology is structured as follows:

- **Systematic Literature Identification:** Relevant scholarly articles, journal papers, and research reports were identified using keywords such as "financial literacy," "entrepreneurship," "household entrepreneurship," "China," "rural China," "decision-making," "credit constraints," "risk preference," and "digital finance." The provided list of references formed the foundational dataset for this review.
- **Content Analysis and Synthesis:** Each identified piece of literature was thoroughly reviewed to extract key findings, theoretical frameworks, and empirical evidence pertaining to the relationship between financial literacy and entrepreneurial outcomes. Particular attention was paid to studies conducted within the Chinese context, especially those focusing on rural households.

- **Identification of Mechanisms and Mediating Factors:** The review specifically aimed to identify the channels through which financial literacy influences entrepreneurial decisions, such as access to finance, risk perception, and overall decision-making quality. The roles of credit constraints and risk preference as mediating factors were critically examined.
- **Contextualization within China:** The synthesized findings were interpreted within the unique socio-economic and policy environment of China, considering the country's developmental stage, rural-urban dynamics, and the rapid growth of digital financial services.
- **Thematic Grouping and Discussion:** The extracted information was grouped into thematic areas (e.g., entrepreneurial propensity, access to finance, risk management, digital finance) to facilitate a structured discussion of the results. This qualitative synthesis allowed for the identification of overarching trends, consistent findings, and areas requiring further research.

This methodological approach enables a deep exploration of the complex interplay between financial literacy and household entrepreneurship in China, drawing on a rich body of existing knowledge to provide a nuanced understanding of the subject.

RESULTS AND DISCUSSION

The comprehensive literature review reveals a consistent and multifaceted influence of financial literacy on household entrepreneurial decision-making in China. This impact manifests across various stages of the entrepreneurial journey, from the initial decision to start a business to its ongoing management and performance.

4.1. Financial Literacy as a Catalyst for Entrepreneurial Engagement

A significant finding is the positive correlation between financial literacy and the likelihood of a household engaging in entrepreneurial activities. Studies focusing on China, particularly rural areas, strongly support this. Guo et al. (2024) provide direct evidence that financial literacy drives entrepreneurship in rural China [6]. This suggests that a better understanding of financial concepts empowers individuals to recognize and pursue entrepreneurial opportunities, moving beyond traditional employment. Xu and Jiang (2024) further reinforce this by arguing that financial knowledge directly creates value by enabling entrepreneurial behavior [25]. The ability to accurately assess market viability and potential returns, a hallmark of financial literacy, reduces perceived uncertainty and encourages individuals to take the entrepreneurial leap.

4.2. Alleviating Financial Constraints and Enhancing Access to Capital

One of the most critical channels through which financial literacy impacts household entrepreneurship is by improving access to finance and mitigating credit constraints. Entrepreneurial ventures, especially at the household level, often suffer from limited access to formal credit (Buera, 2009 [2]; Kara, 2012 [10]; Weng et al., 2022 [24]). Financially literate households are better equipped to navigate the complexities of financial institutions, understand loan products, prepare necessary documentation, and negotiate favorable terms (Huston, 2012 [8]). Liu, He, and Xu (2023) explicitly demonstrate that financial literacy helps Chinese rural households overcome credit constraints, thereby facilitating their entrepreneurial endeavors [18]. Similarly, Su et al. (2024) show how financial literacy enables rural households to utilize farmland mortgage financing, a crucial source of capital for agricultural and related businesses [23]. This indicates that financial literacy is not just about managing existing funds but also about effectively acquiring external capital.

4.3. Shaping Risk Perception and Improving Decision Quality

Entrepreneurship is inherently a risky undertaking, and the quality of risk assessment and decision-making is paramount for success (Kefan et al., 2011 [11]; Li & Ahlstrom, 2020 [17]; Wang et al., 2020 [23]). Financial literacy plays a crucial role in shaping a household's risk preference and improving the rationality of their entrepreneurial decisions. Financially literate individuals can better evaluate the trade-offs between risk and return, leading to more calculated and informed risk-taking rather than impulsive choices. While Gathergood (2012) suggests financial literacy can reduce over-indebtedness by fostering self-control [5], in an entrepreneurial context, it can enable individuals to take appropriate, well-understood risks necessary for growth. Liu, He, and Xu (2023) confirm that risk preference mediates the relationship between financial literacy and entrepreneurship in rural China, implying that financial literacy influences how households perceive and react to entrepreneurial risks [18]. Furthermore, Jiang et al. (2023) highlight that financial intelligence contributes to better entrepreneurial financial performance, especially in challenging post-pandemic scenarios, by enabling sound financial decisions [9].

4.4. The Amplifying Role of Digital Finance

The rapid proliferation of digital finance platforms in China has significantly amplified the impact of financial literacy on household entrepreneurship. Digital inclusive finance, by lowering transaction costs and expanding the reach of financial services to remote areas, empowers more households to engage in entrepreneurial activities (Liu, Z., Zhang, Y., & Li, H., 2021 [19]). Hu et al. (2023) demonstrate that digital finance, combined with entrepreneurship, can help reduce the household income gap in China, suggesting its role in promoting more equitable entrepreneurial opportunities [7]. However, the effective utilization of digital financial tools still requires a foundational level of financial literacy, indicating a synergistic relationship where digital access enhances the benefits of financial knowledge.

4.5. Interplay with Social Capital

Beyond individual financial capabilities, social capital also interacts with financial literacy to influence entrepreneurial outcomes. Zhao and Li (2021) found that social capital mediates the relationship between financial literacy and rural household entrepreneurship in China [26]. This implies that while financial knowledge is crucial, strong social networks can provide additional support, information, and informal financing channels, especially in rural communities where formal financial markets might be less developed. Therefore, fostering entrepreneurship requires not only enhancing individual financial literacy but also strengthening community-level social capital.

CONCLUSION

This article has synthesized existing literature to demonstrate the significant and multifaceted impact of financial literacy on household entrepreneurial decision-making in China over the past four decades. Financial literacy acts as a crucial enabler, increasing the propensity of households to engage in entrepreneurial activities, improving their ability to access and manage financial resources, and enhancing the quality of their risk assessment and strategic decisions.

The review highlighted several key mechanisms. Firstly, financial literacy directly encourages entrepreneurial participation, particularly in rural China. Secondly, it plays a vital role in alleviating credit constraints, allowing households to secure necessary financing for their ventures, including through innovative mechanisms like farmland mortgage financing. Thirdly, financial literacy refines risk perception and preference, leading to more calculated and effective entrepreneurial decision-making. Lastly, the rise of digital finance in China has emerged as a powerful amplifying factor, extending financial services to a broader population and further empowering

financially literate households to pursue entrepreneurial opportunities. The interplay with social capital also underscores the importance of community networks in supporting entrepreneurial endeavors.

For policymakers in China, these findings underscore the critical importance of investing in financial literacy education programs, especially in rural areas. Such programs should not only focus on basic financial knowledge but also on practical skills related to business finance, risk management, and the effective use of digital financial tools. Furthermore, policies aimed at fostering entrepreneurship should consider the synergistic relationship between financial literacy, access to finance, and social capital. Future research could delve deeper into the causal mechanisms using longitudinal data, explore the heterogeneous impacts across different types of household businesses, and conduct comparative studies across various regions within China to identify best practices for promoting financially informed entrepreneurship.

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