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**The Business Performance and Competitive Strategies of  
Chinese SMEs: Case Study in Qingdao City**

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# **1. Introduction**

## **1.1 Research Background and Area**

The timeline of this study ranges from over 2008 to 2015: it analyzes the business performance and competitive strategies of Chinese SMEs in the context of global macroeconomic changes. This is a troubled period in economic history as it includes the most severe global financial and economic crisis in the past four decades: 2008 to 2009 are the cornerstone of the crises, whereas 2010 to 2015 show an economic recovery trend. Furthermore, only one industrial sector in one location—motorcycle tire products in Qingdao City, Shandong Province—is considered for this research to avoid confounding impacts from a large range of industrial fields (Eisenhardt, 1989). In addition, this study also identifies the strategic position of Chinese SMEs and makes recommendations for future strategic actions to enhance their strategic competitiveness.

## **1.2 Research Motivation**

China is unique in the world as the largest population with the fastest economic growth, and the second biggest economy governed by one-party communist bureaucracy so that it is worth to be watched closely (Maddison, 2006; Das, 2012). Moreover, SMEs in China have become the major source of Chinese economic development and an integral part of world economy with less four decades, which attracts a lot of attention and makes the study of Chinese SMEs essential (Fang, 2010).

On the other hand, the significance of competitive strategies is incontrovertible, especially for SMEs. The effective implementation of competitive strategies is important for SMEs to get out troubles in economic downturn (Lynch, 2012).

## **1.3 Research Objectives, Questions and Key Hypotheses**

### **1.3.1 The Statement of Research Objectives**

This research intends to provide the objectives and aims tied up as below:

- ※ To identify the relationship between SMEs business performance and economic effectiveness
- ※ To assess the strategic position of Chinese SMEs
- ※ To analyze the strategic choices adopted by Chinese SMEs
- ※ To evaluate the competitive strategies in terms of success or failure
- ※ To recommend the suitable strategic actions for the future strategy implementation

### **1.3.2 The Statement of Research Questions**

The adverse impacts of economic crisis and recession on Chinese SMEs have been substantial, leading to a survival crisis. How can the strategic situation of Chinese SMEs become more competitive? This is the main research question. To clarify this key inquiry, it is divided into four essential questions:

Question 1: What is the relationship between SMEs business performance and economic effectiveness? The first research objective is to answer this question.

Question 2: What is the current strategic position of the SMEs of motorcycle tire products in Qingdao City?  
The second research objective is to answer this question.

Question 3: How successful are their competitive strategies? The third and fourth research objectives are to answer this question.

Question 4: What recommendations can be made to enhance their strategic competitiveness? The fifth research objective is to provide feasible recommendations, and therefore answer the primary research inquiry.

### **1.3.3 The Statement of Key Hypotheses**

In accordance with the research question above, three key hypotheses are proposed as follows:

§There is a strong and positive correlation between SMEs business performance and economic effectiveness.

§The positive strategic position of the SMEs of motorcycle tire products in Qingdao City

§The competitive strategies implemented by Chinese SMEs are successful.

## **1.4 Originality and Value**

A great number of scholars concentrate on the studies of enterprises involved in a high-tech industry such as IT. However, most Chinese SMEs involve in the labor-intensive industry and manufacture low-tech products like final-products assembly and then export the finished goods to overseas (Kanamori et al., 2007). The SMEs of motorcycle tire products miniature the overall Chinese SMEs with low value-added. Furthermore, there are few academic researches paying close attention and conducting in-depth investigation on SMEs in Qingdao City. Therefore, this dissertation pioneers in identifying business performance and evaluating competitive strategies of SMEs manufacturing motorcycle tire products in Qingdao.

This study analyzes the current economic, cognitive, normative environment in China, providing useful information for foreign companies to do business in China.

## **2. Literature Review**

### **2.1 Theoretical Explanation of Chinese SMEs**

According to the newest standard of Chinese SMEs issued by the Chinese government in 2011, the annual turnover of micro-sized enterprises is less than 3 million RMB (around 0.46 million US dollars) with less than 20 workers. The annual turnover of small-sized companies is from 3 million RMB (around 0.46 million US dollars) to 30 million RMB (around 4.62 million US dollars) with 20 to 300 personnel. In addition, the annual turnover of medium-sized firms is from 30 million RMB (around 4.62 million US dollars) to 300 million RMB (around 46.15 million US dollars) with 300 to 2000 staffs (The Ministry of Industry of the People's Republic of China, 2012). However, the number of employees is only less than 250 in the European Union and less than 500 in the United States (European Commission, 2014). The criterion of SMEs in China is more wide-ranging than other countries, which makes for a difficult comparison. Therefore, the definition of SMEs from Small Business Administration (SBA) is applied in this research, which is widely accepted

and agreed in the entrepreneurship literature. Under the definition from SBA, the number of employees is decreased from less than 2000 to less than 500. In fact, the number of enterprises with less than 500 staffs overwhelms the majority of SMEs in China (Wolff and Pett, 2000).

According to Li (2011), Chinese SMEs have changed from being insignificant to a complementary role and then to an indispensable section in the last four decades. For instance, there were approximately 52.751 million of SMEs in China, which accounted for 98% of total enterprises and provided 85% of overall employment in 2013. In addition, Chinese SMEs also contributed to 60% of national GDP, 61% of total investments and 60% of overall tax revenue (China Statistical Yearbook, 2013).

## **2.2 The Explanation of Research Theories**

### **2.2.1 Main Theories for Identifying Strategic Position**

With regard to the strategic position, both external and internal environment are considered. The main frameworks to analyze the external environment are PESTEL framework and five forces framework. The PESTEL framework identifies political, economic, social, technological, environmental and legal environment, which would exert important influences on business activities and corporate performance (Thompson and Martin, 2010, p.789). Furthermore, Michael Porter (1980) presented the five forces framework to determine the attractiveness of one particular industry based on five competitive elements: the threat of new entrants, the threat of substitute products or services, the bargaining power of buyers, the bargaining power of suppliers, and the rivalry among existing firms. According to Michael Porter (1985), a particular industrial sector where these five forces are high, then this field cannot be attractive to compete in. The aspects of external environment imply the factors regarding opportunities and threats of SWOT analysis (Johnson et al., 2012, p. 30).

In terms of internal environment of one enterprise, it separates into the corporate structure and governance, the tangible and intangible resources. The aspects of internal environment imply the factors concerning strengths and weaknesses of SWOT analysis (Johnson et al., 2012, p.30).

### **2.2.2 Main Theories for Evaluating Competitive Strategies**

To evaluate the competitive strategies, the corporate-level strategy and business-level strategy are taken into consideration by Ansoff matrix and Porter generic strategies. Ansoff matrix is useful to analyze the corporate-level strategy based on market penetration and consolidation, market development, product development and diversification (Johnson et al., 2012, p. 135). On the other hand, business-level strategy is supposed to be appropriate to corporate-level strategy (Johnson et al., 2012, p. 6). Michael Porter puts forward three generic approaches to achieve a competitive advantage, which is cost-leadership, differentiation and focus strategy (Lynch, 2012, p. 307).

## **3. Research Methodology**

### **3.1 Research Approach**

According to the research problems identified and the research information accessed, quantitative research method as well as qualitative research method is adopted to acquire more details. Regarding the quantitative research method, data from 57 SMEs of motorcycle tire products in Qingdao is analyzed by structured questionnaires. Concerning the qualitative research method, 8 SMEs are selected as multiple case studies by semi-structured interviews. Owing to the restrictions of research time and data sources, the access to SMEs operating motorcycle tire products in Qingdao makes the study information more available but is acknowledged as limited.

### 3.2 Information Source and Data Collection

#### 3.2.1 Primary Data

145 SMEs manufacturing motorcycle tires were randomly selected in different districts of Qingdao. Accordingly, 145 structured-questionnaires were distributed by a combination of drop-and-collect and e-mail methods in May 2015. However, 69 replies were received until the end of September and only 57 of them were valid. The rate of valid responses was approximately 39.31%.

In the second phase, successful semi-structured interviews with the experienced managers from eight SMEs are conducted (see Table 1 below). Each semi-structured interview was around 20 minutes to make sure the impartial research findings by more details with better understanding.

**Table 1: Background of Interviewees**

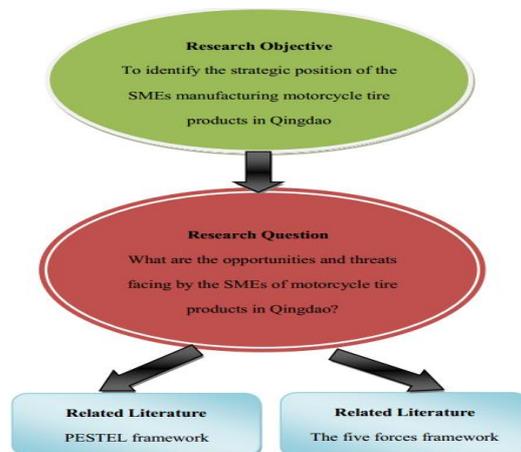
Company Code	Ownership	Founding Year	Number of Employees	Location	Market	Position of Interviewee
A	SOE	1999	485	Huangdao District	Domestic 50% International 50%	Sales Manager
B	PE	1996	187	Shinan District	Domestic 80% International 20%	Assistant of General Manager
C	PE	2001	43	Laoshan District	Domestic 100%	Human Resource Manager
D	PE	2006	200	Shinan District	Domestic 40% International 60%	Marketing Manager
E	COE	1986	450	Huangdao District	Domestic 30% International 70%	Executive Manager
F	PE	1998	272	Pingdu Town	Domestic 50% International 50%	General Director
G	JV	2003	438	Chengyang District	Domestic 10% International 90%	Business Director
H	PE	2000	152	Pingdu Town	Domestic 80% International 20%	Vice-general Manager

Source: Summarization from 8 SMEs in Qingdao City

#### 3.2.2 Secondary Data

Secondary data plays a significant role in this study. For example, Figure 1 below shows the information of external environment that SMEs located in is learned from academic books and journals.

**Figure 1: The Application of Secondary Data**



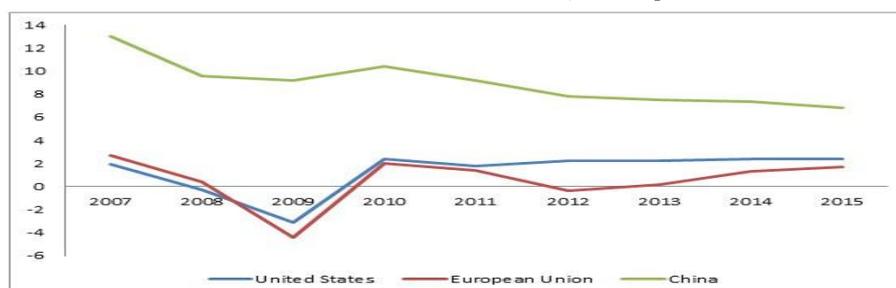
Source: Adapted from Blumberg *et al.* (2011), p. 236

## 4. Findings and Analysis

### 4.1 The Business Performance of SMEs during Recent Economic Effectiveness

The global financial and economic crisis emanated from the United States in 2008, spread within Europe in 2009, and then affected the global economy. The negative impact of this economic crisis is ongoing (Shen and D'Netto, 2012, p.45). Chart 1 below shows the annual rate of GDP growth in the United States, the European Union and China from 2007 to 2015. During the global financial crisis (2008-2009), the economy of the U.S. fell into a stagnant situation with 5% contraction of GDP growth in 2009 than that of 2007. This was the most difficult time since the Great Depression in 1930s. During the stage of economic recovery (2010-2015), the U.S. economy has recorded six years of positive growth with 2.2% on average, which was still below the historical average of 3.3%. On the other hand, affected by the economic crisis, the annual rate of GDP growth in the European Union declined from 2.7% in 2007 to 0.4% in 2008, and then dropped significantly to -4.4% in 2009. However, the adverse impacts of this crisis on the European economy are still evident. Chart 1 below clearly reveals that although the annual rate of GDP growth increased from 0.2% in 2013 to 1.8% in 2015, it still did not return to the level of 2007 (2.7%). Furthermore, the unemployment rate in the EU was burgeoning, which was approximately 10% on average from 2010 to 2015. In juxtaposition to the U.S., the EU had experienced a partial and fragile economic recovery. Furthermore, due to the current high unemployment rates, job creation is unlikely to return to pre-crisis levels in the near future (European Commission, 2015). Yet, the Chinese economy still maintains a higher positive growth, compared to other developed economies. However, the annual rate of Chinese GDP growth decreased from 9.2% in 2011 to 7.8% in 2012 and fell to 7.5% in 2013. It declined again to 6.8% in 2015, which was the slowest rate in the past 25 years. It is estimated the annual rate of GDP growth will continue to reduce further and projected to drop to approximately 6.5% in 2016 (China Statistical Yearbook, 2015). Following a severe crisis, the current world economy is into a low economic effectiveness with a slow GDP growth and a fragile economic recovery.

Chart 1: The Annual Rate of GDP Growth in the United State, the European Union and China (%)

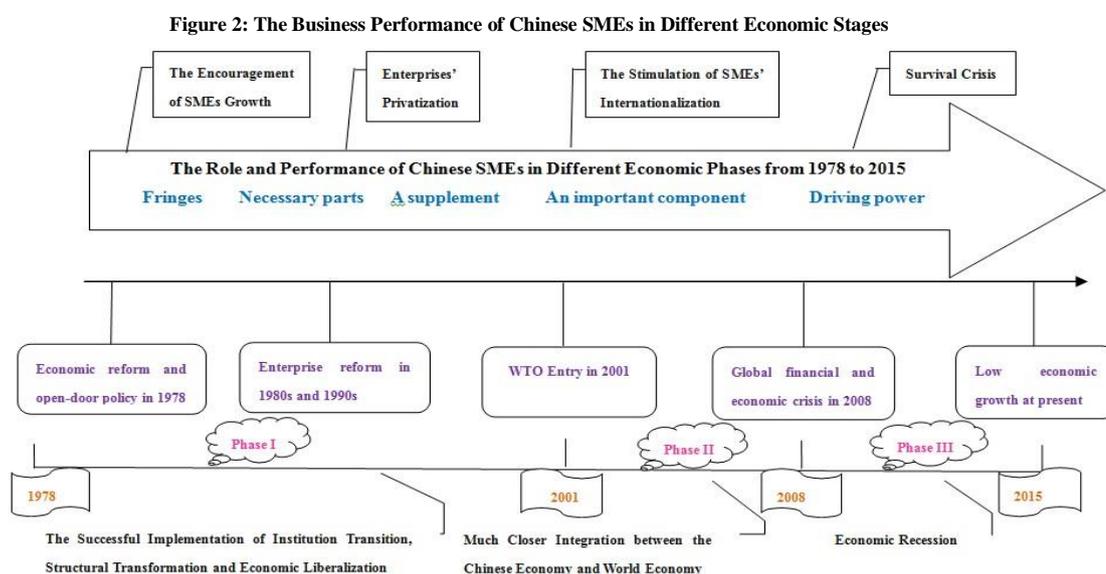


Source: TRADING ECONOMICS (2016)

As one of the most vulnerable sector affected by economic change, SMEs have been into strategic difficulties and felt full extent of economic recession, including the increase in layoffs, the reducing number of SMEs and the substantial declines in value added (OECD, 2014). The improvement of SMEs' business performance hinges crucially on economic situation. For example, the economy of the United States has recovered better than the European Union, which is especially true from 2012 to 2014 (see Chart 1 above). As a consequence, American SMEs are showing better business performance. The demand and expansion of SMEs credit have rebounded stronger in the US since the second half of 2009 (Thomson Reuters, 2014).

Moreover, small American firms acquired spectacular job gains with nearly 64% of employment increase during the economic recovery (OECD, 2014, p.362). However, SMEs in the majority countries of the European Union presented the substantial decline in their value added creation and employment in 2013, which were still under their previous level in 2008 (European Commission, 2014). On the other hand, the role of SMEs is of great concern with a stable economic recovery in the European Union with regard to the number of enterprises, employment capacity and value added generation. The favorable development of SMEs will also ensure a sustainable economic growth and achieve prosperity for all EU citizens. To summarize, the business performance of SMEs and the economic growth is inseparably interconnected.

Different with the U.S. and the EU, business performance of Chinese SMEs is mainly dependent on the political economy owing to the socialist marketing system. The government policy has been considered as one of the key factors influencing business performance of SMEs. Figure 2 below shows the Chinese economy and SMEs experienced a distinctive growth, which is divided into three stages: from 1978 to 2000, over 2001 to 2007, during 2008 until 2015. The first stage of Chinese economy (1978-2000) was recognized by the successful implementation of economic reform and open-door policy, including three solid accomplishments of institutional transition, structural transformation and economic liberalization. A great opportunity for the development of SMEs and enterprises' privatization is provided by the new economic environment from communist planning to market distribution (Lin and Wang, 2008). The second stage of Chinese economy (2001-2007) was recognized by much closer integration between the Chinese and world economy after joined WTO in 2001. As a consequence, an increasing number of SMEs were involved in foreign trade and expanded to the overseas market, resulting in a more important role and new challenges within international markets (Cardoza and Fornes, 2012, p. 6).

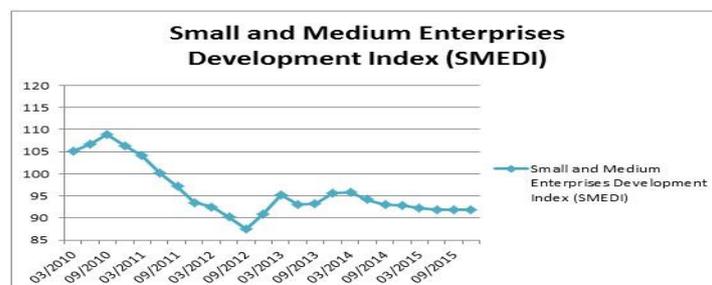


Source: Summarization of Chapter 3

With the deeper development of economic globalization, China inevitably weathered the world economic depression maelstrom (OECD, 2014). The third stage of Chinese economy has been recognized by the severe impacts of financial crisis and economic recession on Chinese economic environment since 2008. There can be no doubt that Chinese SMEs have had to navigate a tough economic terrain. Chart 2 below illustrates Small and Medium Enterprises Development Index (SMEDI) dropped sharply from the

peak value (108.9) in September 2010 to the minimum value (87.5) in September 2012. Whereas it started to increase from December 2012, however, SMEDI did not maintain a dynamic condition with fluctuations from 90.8 to 95.9. Additionally, it reduced again to 91.8 in December 2015, which indicates the depressed development trend.

Chart 2: Small and Medium Enterprises Development Index from 03/2010 to 12/2015



Source: China Association of Small and Medium Enterprises (2016)

According to the results from research questionnaires, most participants agree that the business performance of their firms is heavily dependent on the economic environment. Additionally, 87.7% of respondents admit that the current economic downturn exerts very negative impacts on their profits.

## 4.2 Findings and Analysis of Strategic Position

The findings of strategic position in which Chinese SMEs located are collected from secondary data with references and primary data by structured questionnaires and semi-structured interviews.

### 4.2.1 Findings and Analysis of External Environment

A variety of regulations and policies have been enacted by the Chinese government to stimulate the development of SMEs and improve their operating environment, including the promotion law of Chinese SMEs and the government procurement policy for small businesses (Tang and Tang, 2012). Furthermore, there are rich natural resources, huge market potentials, constantly improved infrastructures and relatively cheap labors providing a good platform for Chinese SMEs, especially for the resource-intensive SMEs (El Kahal, 2001, p. 62; Cardoza and Fornes, 2012, p.6). Moreover, the transformation of high-tech manufacturing sectors is accelerating from developed countries where hard hit by the economic depression to emerging economies like China. The industrial updating not only helps China to consolidate the current position of “a world factory”, but also brings a historic opportunity for SMEs to optimize their industrial structures (Zhao, 2010). In addition, guan xi (inter-personal connections) is very important for the Chinese society, exerting a significant implication on running business in China (Munier, 2001). Because most Chinese SMEs started from small family business, the accession to more business opportunities, information exchanges and credit assurances is largely driven by guan xi (Luo, 1997). The convenience and benefit would be provided by a good guan xi network, which might not easily obtain from an official system (Chen, 2004, p. 46). Most importantly, the increasing efforts have been made to support high-tech firms and encourage their innovation, including the establishment of high-tech zones and the financial allocation for innovation programs (Chen, 2014).

However, one of the political challenges in China is the low efficient and complicated administrative formalities (Zhang, 2013). For example, 11 procedures and 31.4 days are required to start a new business for Chinese SMEs, which is around 3 times higher than other OECD economies (World Bank, 2015). In view of the results from questionnaires, 54.39% of respondents strongly agree or agree the difficulty of starting tire business. Furthermore, many interviewees mentioned the negative influences from current economic recession on their businesses, including the declining overseas orders, the reducing profit margins and business downsizing. Most countries have urgently desired to protect their economy and national industries. Therefore, when Chinese SMEs enter and expand foreign markets rapidly, they are easily too involved in trade frictions, anti-dumping lawsuits and intellectual property litigations (Guang, 2013).

On the other hand, the growing labor costs make Chinese firms lose their competitive advantage of cheap labors (Sohu News, 2014). Take Qingdao City as an example, the minimum monthly salary dramatically rose from 180 RMB (around 28 US dollars) in 1995 to 1600 RMB (around 254 US dollars) in 2015, increased more than nine times during the recent ten years (Bandao News, 2015). Additionally, the rapid development of technology and the advocacy of green production have brought much higher pressure to Chinese SMEs, especially for enterprises with high pollution and high energy consumption (Zhang and Yin, 2012). Additionally, the imperfect protection of intellectual property, the lax enforcement of commercial contracts and the over-emphasized guan xi connection reveal weak and incomplete legislations in China (Wang, 2008).

In regard to the industrial environment of motorcycle tire products, the marketing competition is very intensive from both large companies and thousands of SMEs. As a result of low entrance barrier, the existing firms have to confront new entrants with severe threats from domestic and overseas markets (Ma et al., 2012; Pattanayak et al., 2000). Furthermore, the traditional tires will be replaced by new green tires (Hangye News, 2014). The bargaining power of an individual buyer is limited, whereas the bargaining power of a motorcycle producer or a tire importer is relatively strong (Ma et al., 2012). In addition, the excessive dependence on the import of natural rubbers as well as the fluctuating price of synthetic rubbers has made adverse impacts on the producers of motorcycle tires (Zhang, 2015). In short, Table 2 below summarizes the attractiveness and profitability of the motorcycle tire industry by Porter five forces.

**Table 2: The Application of Porter Five Forces in the Motorcycle Tire Industry**

Category	Specific Objective	Summaries
The Threat of New Entrants	The new firms of motorcycle tire products from domestic markets and international markets	The threats are not strong from domestic markets, but there are growing threats from international markets
The Rivalry among Existing Firms	The existing large firms, SMEs of motorcycle tire products and international competitors	The competition is very fierce.
The Threat of Substitute Products or Services	The green tires (environmental-friendly and energy-conservation tire)	The traditional tires will be replaced by green tires.
The Bargaining Power of Buyers	The individual customers, motorcycle producers and the import merchants	The bargaining power of individual buyers is limited, but the bargaining power of motorcycle producers and import merchants are strong.
The Bargaining Power of Suppliers	The suppliers of raw materials such as natural and synthetic rubber	The over demand of natural rubber and fluctuating prices of synthetic rubber have affected on the profits of the SMEs producing motorcycle tires.

Source: Summary of Section 4.2.1

#### **4.2.2 Findings and Analysis of Internal Environment**

Concerning the corporate governance and organization structure, most SMEs are small business with less than 300 employees, including approximately 10% to 30% of family members. It is to be observed that the majority of important positions are controlled by family members of enterprise's owner(s). The small organization structure and the functional organization structure are widely adopted by Chinese SMEs. Regarding the situation of human resources, only 22.81% of SMEs recruited or plan to recruit the full-time staff because of the sluggish business environment. The education level of employees is quite low. For example, only eighteen enterprises hire over 15% of personnel holding a bachelor degree or above. This accounts for 31.38% from the research sample. To improve the skills of employees, all firms provide on-job trainings, while none of them offers off-job trainings.

As for the situation of financial resources, the loans from banks or other financial institutions and the private lending are main approaches to acquire the financial support, representing 75.44% in total. On the other hand, there are 96.49% of participants that agreed or strongly agreed with a very hard access to financial assistance. More than half of the respondents believe that the difficult loan guarantee is the key reason behind SMEs' financing problems. The shortage of financial channels and lack of the government support are other reasons, accounting for 21.05% and 14.04% respectively.

With respect to the technology and innovation, the technical condition of production equipment is domestic average or advanced level, representing 54.39% and 45.61% of the research sample respectively. Due to the fierce industrial competition and policy incentives, self-development of the technology is emphasized by a growing number of SMEs in China. However, the shortage of capital and a weak R&D capability are main obstacles of their independent technology. Therefore, 82.46% of SMEs from the research sample obtain their key technology by the domestic transfer and acquisition.

In terms of brand and patents, over half of SMEs are OEMs without their own brands and 29.82% of them hold ordinary brands. Many interviewees mentioned that they provide the outsourcing service, especially for large companies. Furthermore, there are 37 firms without any plan of patent application, accounting for 64.91% of total SMEs.

In addition, office automation system and corporate website are adopted by over 60% of all SMEs. On the contrary, less than 50% of enterprises utilize the computer aided process system, owing to the insufficiency of technological and financial support.

#### **4.2.3 The Summarization by SWOT Framework**

In consideration of internal strengths and external opportunities mentioned above, the current strategic position of Chinese SMEs is relatively good. However, there are still many internal weaknesses and external threats such as the poor anti-risk ability and the weak R&D capability. Therefore, opportunities and challenges co-exist for SMEs in China. Figure 3 below summarizes the overall strategic position of Chinese SMEs producing motorcycle tires by using the SWOT framework.

Figure 3: The Diagram of SWOT Analysis



Source: Summary of Section 4.2.1 to Section 4.2.2

### 4.3 Findings and Analysis of Competitive Strategies

The analysis of corporate-level strategy and business-level strategy is described, which aims to identify and evaluate the competitive strategies of Chinese SMEs.

#### 4.3.1 Findings and Analysis of Corporate-Level Strategy

In terms of the market consolidation and development, 40.35% of SMEs further strengthen their existing markets through improving the quality of their products. This means that more and more Chinese SMEs have emphasized the importance of quality. Moreover, the booming E-commerce provides a convenient platform for SMEs, including Alibaba, Jingdong, Gome, Suning, etc. The extensive application of E-commerce not only helps Chinese SMEs to save the distribution costs, but also conduces to identify a prospective client and develop a new market. However, without enough financial support and information resources, the domestic and international exhibitions are attended by less than 20% of SMEs.

As far as the product development and diversification are concerned, although 31.58% of Chinese SMEs did not develop any new product, 64.91% of them developed one to three new product(s) in 2014. In addition, a quarter of SMEs launched new product(s) at new market(s) in 2014. For example, according to the new

consumers' requests in Saudi Arabia, Company E provides new cross-country tires and sand tires for them. On the other hand, without any development of new products and markets, Company C is trying to sell more existing products in its current markets by using price discount, sample and gift coupon.

#### **4.3.2 Findings and Analysis of Business-Level Strategy**

As for the business-level strategy, no any strategy is predominately enforced by SMEs in China. Specially, the low cost strategy and focus strategy are adopted by 38.59% and 35.09% of SMEs from the research sample respectively. For instance, Company F insists on the principle of low prices by providing cheap products under the average price. The focus strategy is divided into a product concentration and a market concentration. For example, Company H focuses on the manufacture of inner tubes, while Company C concentrates on the domestic markets, especially in Shandong Province.

Compared with low cost strategy and focus strategy, the differentiation strategy is implemented by less Chinese SMEs, representing only 26.32% of total enterprises. There appeared the problems of seriously homogeneous products, leading to the intensive market competition, the exporting order confusion and the excessive marketing concentration. Furthermore, a similar product with low value added is easily to be substituted as well. On the other hand, over half of SMEs bring two different kinds of strategies into force at the same time; whereas only 7.02% of them adopt more than two strategies simultaneously.

### **5. Recommendations of Future Strategic Actions**

Several suggestions for the Chinese government and some recommendations of future strategic actions for Chinese SMEs are provided to deal with their external and internal problems.

#### **5.1 The Strategic Actions to Improve External Environment**

According to the discussion of external environment of Chinese SMEs, there are three recommendations in the following.

##### **(1) To Establish More Favorable Governmental and Legal Environment**

Although a variety of policies and laws have been enforced to create a standardized and orderly market environment, the current governmental and legal environment is still imperfect, especially for the complex bureaucratic procedures and the weak protection of intellectual property rights. To establish more favorable and fair environment, the Chinese government should formulate several principles of simplified and unified administrative procedures to improve the working efficiency. On the other hand, China has to actively participate in international conventions and agreements on the protection of intellectual property rights. A series of measures should be taken to promote intellectual property protection, including the complete prohibition of pirating, the strict enforcement of present laws (e.g. a trademark law, a patent law and a copyright law) as well as the expansion of legislation scope.

##### **(2) To Offer the Sufficient Financial and Technological Support**

Under the current environment, which is one of the worst economic depressions in decades, it is recognized that the government should take effective actions to fight against the economic recession and handle its corresponding negative influences. The Chinese government has spared no efforts to stimulate economic growth recently, including the declining reserve requirement ratio (RRR) and low interest rates, the increasing export tax rebates and the further development of infrastructures (Wu and Wang, 2014). However, the support of finance and technology from the Chinese government is largely deficient. Based on the research findings, more than 60% of SMEs in China are badly in need of the financial and technical assistances. Moreover, the bank lending to Chinese SMEs has been much tighter since many banks raised the minimum requirement of mortgage loans, small business loans and credit loans in 2011. Therefore, the problem of SMEs financing is more and more serious. On the contrary, in the United States, lending to small enterprises increased by 20% in October 2011, which is the fifteenth consecutive month of double figure growth (Adler, 2011). This is partly caused by the Small Business Jobs Act (SBJA) issued in September 2010, aiming to facilitate the access to finance for SMEs in the United States. The clauses of SBJA contained: the extension of the Federal Government-backed loans to SMEs managed by SBA; the new specialized funds to encourage small banks to provide loans for SMEs; an initiative to reinforce state-based programs of lending to SMEs as well as a significant tax cut for small businesses (Lee, 2010). These actions have brought a series of positive impacts on the development of SMEs (Hatton, 2012). The SBJA could be a reference for the Chinese government to cope with the financing difficulties of SMEs in China.

In addition, other assistances explicitly designed to improve the SMEs financing could be provided as follows.

(A) To extend the financing channels

SMEs in China have fewer choices of financing, especially for the limited access to a financial market. Therefore, the restrictions of issuing bonds for SMEs should be gradually loosened. Furthermore, the Chinese government should encourage SMEs to list on the Growth Enterprise Market (GEM) and further deepen reform of the stock market, such as simplifying the excessive administrative procedures of stock issuance. Moreover, SMEs in China are over dependent on the loans from banks. Therefore, the other flexible financing forms like a lease financing should be widely promoted. For example, it is feasible for SMEs to put into production with less money by leasing a processing plant and some large-scale facilities. This would be very helpful for the newly established small firms.

(B) To establish an effective mechanism of credit guarantee

It is more difficult for SMEs to obtain loans from banks and other financial institutions because there is less trust and higher risks compared to a large company. To deal with this problem, the best way is to establish an effective mechanism of credit guarantee. For instance, the European Association of Guarantee Institutions (AECM), which is composed of non-profit organizations, provides a credit guarantee for SMEs. In 2011, the AECM offered 55 billion Euros to 1.6 million SMEs, accounting for approximately 8% of overall SMEs in the EU. To ensure the accuracy and feasibility of loans, every member of the AECM has to be familiar with a small business sector and its local environment. Moreover, the additional information and useful data will be also provided for banks, financial institutions and SMEs partners to avoid unnecessary risks (Hatton, 2012). From this point of view, it is indispensable to set up one specialized guarantee association for Chinese

SMEs. This would help bank and other financial institutions to assess risks more accurately and assist SMEs to take out loans more easily.

(C) To regulate the private lending

A private lending is one of important direct financing approaches, which exerts a significant positive effect on the development of SMEs. However, the system of private lending in China lacks a strict supervision and an effective management (Wu and Wang, 2014). Therefore, it is necessary to formulate a specialized law or regulation to better control the private lending.

In terms of the technology, it is regarded as the most crucial factor to support the sustainable economic growth as well as the engine of enterprises' long-term development. In this case, the Chinese government should provide a full range of technological support for companies, especially for SMEs. Take the Small Business Innovation Research (SBIR) program in the U.S. as an example, it was created by the U.S. Federal Government to foster the technological innovation of small businesses. The SBIR program is divided into three stages, including the assessment of technological feasibility, the development of primary research and the conversion of technology to commercial applications. The financial support from the U.S. government is directly provided for the first two stages. The first stage is normally awarded less than total 150,000 U.S. dollars for six months, while the second stage is usually awarded no more than total 1,000,000 U.S. dollars for two years (Hatton, 2012). The SBIR program could be replicated by the Chinese central government to encourage the progress of technology and innovation of SMEs. Furthermore, the national incentive mechanism of technological innovation should be also established in China by the tax relief and money award. For instance, a free tax is provided for the high-tech SMEs in their startup phase, and a bonus from the government is offered to SMEs with their own patents. Additionally, the Chinese government needs to offer a collaborative platform for the cooperation between universities/scientific research institutions and SMEs in order to improve their technical knowledge and skill.

**(3) To Establish More Formal Associations of SMEs**

The effect of a single SME is negligible compared with a large firm, whereas the cumulative influences of all SMEs are considerable. Although many civilian commercial chambers are established, there are still few formal organizations of SMEs in China (Tang and Hull, 2011). The representatives from enterprises and their related authorities as well as the experts from universities and scientific research institutions should be members in the formal associations. This would be conducive to (1) enhance the cooperation and exchange of valuable experience between SMEs (2) gain more knowledge from universities/scientific research institutions (3) open a dialogue with the local government. In addition, it is also helpful to establish a network database for the purpose of information and resource sharing. The successful database would provide the useful information about the local value systems, marketing changes, local pool of qualified labors and new technology development, etc (Kacker, 2005).

**5.2 The Strategic Actions to Improve Internal Environment**

Based on the analysis of internal environment of Chinese SMEs, four suggestions are presented to improve their internal environment.

### **(1) To Improve the Situation of Human Resource**

Generally, most Chinese SMEs involved in family members lack the high qualified and educated employees. Furthermore, there are also other problems, including the shortage of labor forces like Company A and the hasty lay-offs like Company C. To handle these issues, three advices for Chinese SMEs are provided in the following.

#### **(A) To expand the recruitment channels**

Although the majority of SMEs implement modern recruitment methods such as newspaper advertisements and job websites, some of them still admit that they recruit new staffs through their personnel guan xi network like Company A. This would lead to an improper employee structure and exert a negative impact on the business management. SMEs in China have to adopt a variety of recruitment channels, including job agencies, career fairs, campus recruitments and advertisements on newspapers, TV and internet, etc. The adoption of outsourcings and temporary workers could be considered to cope with the shortage of manpower as well.

#### **(B) To improve the overall quality of personnel**

In the face of low qualified staff, SMEs could attract an educated employee by a desired salary and an impartial promotion opportunity. Moreover, Chinese SMEs should offer good fringe benefits to retain their workers. On the other hand, although all SMEs from the research sample mentioned that they provided more or less on-job trainings for their employees, none of them offers off-job trainings. The off-job training programs from the related industrial associations or formal organizations should be supported by Chinese SMEs, which allows their employees to learn more knowledge and master more skills. Furthermore, the skeleton employees should be encouraged to continue the professional study pertinent to their works as well.

In addition, SMEs in China also need to hire senior professional managers to learn more about modern corporate management instead of family management.

#### **(C) To avoid the hasty layoffs**

To cut costs, the pace of layoffs and firings has been sped up in a certain number of SMEs since the breakout of economic crisis and recession (e.g. Company H). Generally, layoffs seem to be a good choice to reduce expenditures. However, it is definitely not the best option. The mass reduction of employees even the worst performing worker in the enterprise at the time of a depression would scare other staff and largely decrease the confidence of their employers, suppliers and customers. Furthermore, keep in mind that it is very hard for SMEs to find right workers back once a hasty layoff happened (Sharma et al., 2011). Actually, the wise approach for SMEs to keep their expenses down is to employ and retain the skilled employees making great contributions to the company instead of the hasty layoffs.

### **(2) To Enhance the R&D Capability**

Technology and innovation have been viewed as important impetuses to acquire the competitive advantage and achieve the sustainable development of SMEs in the past thirty years (Radas and Bozic, 2009). However, Chinese SMEs are usually manufacturing the low-end products without core technology and independent innovation. For example, there are only 24.56% SMEs from the research sample possessing their own patents. Therefore, Chinese SMEs have to push technological improvements through the development of their R&D capability. First of all, it is significant to fully recognize and understand the importance of the R&D capability. There are still many SMEs in blind pursuit of short-term economic benefits by imitating foreign technology and products. The enterprise with this short-sighted behavior is doomed to fail. To achieve the sustainable development and prosperity, Chinese SMEs have to spare no efforts to improve their R&D ability. Secondly, the implementation of R&D activities should be on the basis of the market orientation and consumer demands, which allows SMEs to increase their market competitiveness and occupy more market shares (Huang, 2009). Lastly, an effective mechanism of encouraging innovation should be established within a company by the combination of salary and promotion incentives. This would raise a sense of accomplishment and satisfaction of the technical employees (Wang and Wu, 2014).

### **(3) To Build a Well-Known Brand and a Strong Reputation**

The image and recognition of enterprises would greatly impact the credibility and sales of their products. This is called brand effects. A successful brand makes a positive and lasting impression on its customers' minds (Fill, 2002, p. 339). Although more and more Chinese SMEs put a high value on their brands, the majority of them still lack recognizable brands and a strong reputation. For example, only 7.02% of SMEs from the research sample hold a national brand. This makes it difficult to maintain the loyalty of current customers and attract more new consumers, hindering the long-term development of SMEs. Hence, SMEs in China have to create a complete corporate identify (CI) system, which contributes to the establishment of a terminal corporate image and brand. It is also very necessary for Chinese SMEs to build a strong reputation through providing high-quality products and actively participating in public welfare.

### **(4) To Perfect the Information-based System of SMEs**

The enterprises' informatization is one of the effective tools for SMEs to increase their production efficiency and optimize their management system. Furthermore, the enterprises' informatization provides a favorable platform of electronic marketing retailing, trading and transaction. By all accounts, the information-based systems support and develop a propensity for the following areas (Sharma et al., 2011):

- § The development of new product
- § The improvement of manufacturing process
- § Decreasing the costs of transaction and production
- § Accessing the knowledge of information and technology

Therefore, SMEs in China should attach great importance to the establishment of complete information-based system through computer network, internet and multimedia.

### **5.3 The Strategic Actions to Enhance Competitive Strategies**

In accordance with the analysis of competitive strategies implemented by SMEs in China, three important strategic actions should be considered to achieve their competitiveness.

#### **(1) To Improve the Communication with Consumers**

The communication between SMEs and their customers is very important for the formulation of competitive strategy, especially for the time of gloomy business. A good communication will encourage the involvement of consumers and increase their satisfaction (Fill, 2002). This is the foremost request of any industry during a depressed time. The satisfaction of customers covers many factors, whereas it basically involves two significant aspects: keep promises for consumers and satisfy their demonstrated demands (Sharma et al., 2011). Listening to the voice of consumers could carry out through the questionnaires, telephone consultations, online surveys and customer feedback systems, etc.

#### **(2) To Pay Close Attention to the Market Change**

Owing to a limited anti-risk ability of SMEs, the emphasis of market change is very indispensable, including the collection, analysis and feedback of market information. This would be helpful for Chinese SMEs to adjust their corporate strategies timely and minimize the external risks. For instance, according to the latest market news, SME could adjust their inventories on time during a slack season, while they could develop the marketable products rapidly during a peak season.

#### **(3) To Move to High Value-added Products and Services**

Because a supply chain is threatened by the shrinking orders and the economic slump, a large number of SMEs have started to rein in their ambitions and focus more narrowly such as Company H and Company C. In the meanwhile, the price sensitive consumers not only seek for low prices, but also demand better value for money. For example, the after-sales service like a product warranty must be included as a part of the deal, which puts more pressures on Chinese SMEs. On the other hand, the growing labor and raw material costs make SMEs very difficult to survive by a simple strategy such as providing cheap products and resource-intensive production. By the large, SMEs in China have to develop high value added products by the improvement of technology. Chinese SMEs also should be as far as possible on the cost front to keep their price edge. In other words, SMEs have to take full advantage of the technical progress in order to create remarkable quality with low prices. Furthermore, the satisfactory service of post-purchase must be provided to win consumers' trusts.

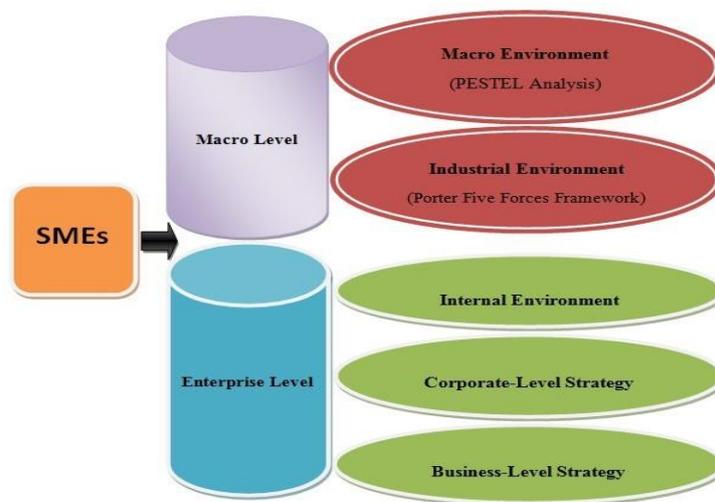
Beside all these, SMEs in China should actively participate in different kinds of trade exhibitions at home and abroad, helping them to utilize more resources and improve their images as well. Additionally, Chinese SMEs have to continuously explore new business opportunities and seek more market spaces in the fast-growing markets of emerging or newly-developed economies through new marketing tools like E-commerce.

## 6. Conclusion, Limitation and Recommendation

### 6.1 Summary of Research Results

Chinese SMEs have occupied a vital position with an increasingly significant role in the economic development and the social harmony. Through the investigation of strategic position from a macro level and the analysis of competitive strategies from an enterprise level (see Figure 3 below), the main research questions are answered and the key hypotheses are tested as follows.

Figure 3: The Construction of Identifying Competitive Position and Strategies



Source: Summary of Section 4.1 to Section 4.3

#### ※ What Is the Relationship between SMEs Business Performance and Economic Effectiveness?

##### Testing Hypothesis No. One: There Is a Strong and Positive Correlation between SMEs Business Performance and Economic Effectiveness.

To identify the relationship between SMEs' business performance and economic effectiveness, business performance of SMEs in the U.S. and the EU during the time of global financial crisis and the time of economic recovery are described. SMEs in both the U.S. and the EU were badly hit by the economic crisis. The adverse effects of this crisis on SMEs in the EU are still on-going, whereas American SMEs are showing better business performance because of a gradually smooth economic recovery. Furthermore, with the development of the Chinese economy, SMEs have grown rapidly since 1978. Moreover, according to the results from the questionnaire, most participants agree that the business performance of their firms is heavily dependent on the economic environment. Additionally, 87.7% of respondents admit that the current economic downturn exerts very negative impacts on their profits.

By the large, the business performance of SMEs is strongly and positively correlated with economic effectiveness.

※ **What Is the Current Strategic Position of the SMEs of Motorcycle Tire Products in Qingdao City?**

**Testing Hypothesis No. Two: The Positive Strategic Position of the SMEs of Motorcycle Tire Products in Qingdao City**

Many internal problems and external threats for Chinese SMEs need to be addressed, including the low education level of employees, the shortage of capital and growing labor costs. However, SMEs in China are not only confronting the great challenges they have ever faced, but also existing the unprecedented opportunities side by side. For example, an increasing emphasis on technology and innovation bring great opportunities for SMEs to optimize their industrial structure. In addition, the prosperity of E-commerce provides a favorable foundation for the further development of Chinese SMEs. In consideration of external opportunities and internal strengths, the overall strategic position of the SMEs manufacturing motorcycle tire products in Qingdao is relatively positive.

※ **How Successful Are Their Competitive Strategies?**

**Testing Hypothesis No. Three: The Competitive Strategies Implemented by Chinese SMEs Are Successful.**

In regard to the corporate-level strategy, Chinese SMEs pay more and more attention to the quality improvement in order to consolidate their existing markets. Furthermore, the extensive application of E-commerce pioneers a new approach to develop new markets. These important aspects are viewed as the success of corporate-level strategy adopted by Chinese SMEs. However, the product development and diversification are not widely and successfully implemented by most SMEs in China.

With respect to the business-level strategy, Chinese SMEs usually provide cheap products to satisfy the customer's requirement of low prices and win more market shares, accounting for 38.59% from the research sample. However, the small production scales, increasingly expensive costs of labors and raw materials make more difficult to maintain a price advantage. Owing to small size and limited resources, SMEs usually pool their resources together to focus on one specific field such as a product concentration or a market concentration. On the other hand, without the adequate financial and technical support, the differentiation strategy is adopted by few SMEs. The shortage of differentiated products not only makes hard to maintain the loyalty of consumers, but also leads to the fierce marketing competition.

By all accounts, the limitations of resources and capital, the shortage of financial support and technological forces as well as the increasing production costs are important factors restricting the successful implementation of competitive strategies for SMEs in China.

※ **What Recommendations Can Be Made to Enhance Their Strategic Competitiveness?**

In accordance with the analysis of competitive position and competitive strategies, several recommendations are provided for both the Chinese government and SMEs. This aims to improve the internal and external environment of Chinese SMEs and achieve their core competitiveness. For instance, the Chinese government

should create a pleasant environment with sufficient financial, technological and legal support. SMEs in China have to enhance their innovation capability, improve the situation of human resources and move to high value added production with a well-known brand and a strong reputation.

## **6.2 Research Limitations**

There are three main limitations of this study need to be informed. First of all, due to the restrictions of limited time and resources, this research merely concentrates on 57 SMEs from one sector (the industry of motorcycle tire products) in one region (Qingdao City). This would lead to less acceptable findings and results from this research.

Secondly, owing to the difficulty of making an interview, there are eight firms conducted with semi-structured interviews. Moreover, only one director from each company is responsible for answering all questions, which might restrict the research scope as well as influence from the research results.

Lastly, this study mainly focuses on the corporate-level strategy and the business-level strategy to evaluate the competitive strategies of Chinese SMEs. However, the analysis of corporate-level strategy basically concentrates on the situation of products and markets by Ansoff Matrix. Furthermore, the discussion of business-level strategy only uses three generic approaches presented by Michael Porter. The neglect of other aspects and strategies is one of the major limitations for this research.

## **6.3 The Policy Recommendations for Future Researches**

Based on three limitations of this study mentioned above, three suggestions are accordingly provided for a future research in the following:

√ To broaden research samples, the future studies are advised to extend the research scope concerning the different industrial sectors of SMEs in different regions.

√ To overcome the limitations of single source bias, data can be collected from managers, employees and trade unions. To collect more information, the online survey should be implemented as well.

√ To ensure the comprehensive research results, the different aspects of diverse strategies should be considered and discussed by more structural frameworks in a future study.

In addition, this study might offer several clues to the future researches. I hope that the limitations of this study could be fully addressed by a future research. And for much deeper and more insightful explanations on the business performance and competitive strategies of Chinese SMEs are provided in the future as well.

## **6.4 Conclusions**

Although SMEs are normally more vulnerable in the time of low economic effectiveness, the economic downturn should not damage their engines of sustainable development. In the face of economic depression, SMEs in China should constantly improve themselves to explore new opportunities, seek for more survival

spaces and accelerate their structural shifts towards a much stronger future. In the meantime, the Chinese government must take inevitable responsibilities to build a more wholesome environment for the growth of SMEs. With the joint efforts from both government and enterprise itself, it is believable that SMEs in China will get out of business troubles soon and further improve the implementation of their strategies to ultimately achieve the strategic competitiveness.

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