Strategic Management in Chinese Manufacturing SMEs

Master Thesis Within Business Administration (30 Credits)

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Abstract

Background:

Strategic management is an important element for companies’ growth, continued scale expansion as well as further development. However, only a few of the scholars have done researches which emphasize the role of strategic management in Small and Medium-sized enterprises (SMEs). In China, SMEs are the major source of the country’s incredible economic-growth in terms of their contribution toward the creation of employment, the improvement of GDP and the development of high-tech intensive industries. Among this, more than 60 percent SMEs are within the manufacturing sector, which accounted for more than 65 percent of the country’s gross domestic product output.

Purpose:

This study is about to find out whether and how strategic management is employed in the Chinese manufacturing SMEs, as well as to explore the main characteristics of the strategic management process in these SMEs. It aims to work as a reference for the senior managers in these firms to better improve and utilize the strategic management tools for their future growth.

Method:

In order to explore deep insights within this subject, personal interviews were conducted to fifteen Chinese manufacturing SMEs and the data were analyzed by using a qualitative research method.

Conclusion:

A significant amount of the senior managers in studied SMEs consider strategic management as an important mechanism for the development of their business strategies. All of the studied firms are employing strategic management techniques. However, the strategic management processes in these SMEs tend to be carried out in an informal and simpler pattern comparing to the conceptual model.
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1. Introduction

This chapter is going to present the background of the selected topic and the underlining problems behind this topic, plus the purpose, delimitation as well as relevant definitions of this study.

1.1 Background

Due to the diversified consumption and increased economic globalization, the environment of market competition is more complex than ever before. Firms in all sizes are facing changes both internally and externally. In order to maintain their competitive advantages as well as sustain the business development, they have to continuously seek for new strategies, new products or new ways to strengthen their market position since the success of strategic management is closely linked to the firms’ business development (Zhao, 2010).

Strategic management is an important element for companies’ growth, continued scale expansion as well as further development. However, most of the studies and relevant findings done by scholars on strategic management are based on researches of large companies. Only a few of them emphasize the role of strategic management in Small and Medium-sized enterprises (SMEs). In China, SMEs have achieved rapid growth in the past decades. They are the major source of China’s incredible economic-growth in terms of their contribution toward the creation of employment, the improvement of GDP and the development of high-tech intensive industries. Weak linkages with external market and limited resources have blocked its growth. Therefore, there is a big necessity for SMEs to enhance their competitive capacity under this market situation by establishing effective strategies (Chen, 2006).

In China, most of the SMEs were established in the last 20 years since China adopted the “open door” policies to promote market-oriented initiatives made by Chinese leader Deng Xiaoping, after when SMEs were seen as vital to the economic development (Liu, 2007). In 2010, approximately 10 million of SMEs were registered in the country, making up 99 percent of all enterprises in China. Among this, more than 60 percent SMEs are within the manufacturing sector, which accounted for more than 65 percent of the country’s gross domestic product output, offering 75 percent of employment opportunities to laborers from rural areas, moreover they have become the main force of China’s international trade development (Zhao, 2010). Moreover, SMEs in manufacturing industry have become an important force to promote China’s economic development and maintain the social stability. However, with the increasingly fierce domestic and international market competition, these SMEs are facing more unprecedented difficulties than large enterprises from many aspects such
as improving technologies & management levels, spreading mission & concepts, and managing organizational structure, especially in strategic management. Considering the important role of manufacturing SMEs in China’s economic development, it is necessary to develop efficient and professional strategic management into practice to achieve the goals (China.org.cn, 2008).

Since the concept of strategic management was introduced to China only in the last decade, it has been spread to only a small number of Chinese SMEs (Chen, 2006). With this fact in mind, we believe that it is necessary to carry out research on how strategic management is employed in the Chinese manufacturing SMEs currently and what are the characteristics of strategic management in these companies, in order to work as a reference for the senior managers in these firms to better improve the strategic management tools for their future growth.

- **Manufacturing Industry & Chinese Manufacturing Industry**

Manufacturing industry accounts for a significant portion of the nation’s wealth. It is important for an economy since they employ a large share of labor force and produce materials such as national infrastructure. Every country in the world is competing to manufacture products better, cheaper and faster (ehow.com, 2012). There are a number of benefits to manufacturing industry, including the manufacturing innovation which involves product innovation, the development of new technologies and introducing latest techniques (Pratten, 2003). The manufacturing technology has expanded rapidly on the global scale. Many countries have analyzed the quality process, the manufacturing systems as to gain professional knowledge to guarantee its competitive capacity (economywatch.com, 2012). Furthermore, the manufacturing sector still remains significant contributions in the leading economies worldwide. When the proportion of country’s export is more than its imports, it generates good profit return and also brings the added value to the manufacturing firms (economywatch.com, 2012).

The manufacturing industry in China has experienced a rapid development in the past two decades, and its general scale has ranked top places in the world (AsiaTradeHub, 2012). As the pillar industry of the Chinese economy, the manufacturing industry serves as the main sector for economic growth and development. Furthermore, as the main symbol of the improvement of national power of China in the past decades, the development of the manufacturing industry has enabled China to establish its status as “big country of manufacturing” in the world (AsiaTradeHub, 2012).

China has been at the middle stage of industrialization now. In the new century,
the major task of China is to realize the industrialization and to take the new path of it that will increase the number of labors involved in the manufacturing industry (AsiaTradeHub, 2012). It mainly focuses on high content of science and technology, better economic benefits and full playing of human resources as to enhance innovation abilities, support the development of advanced production capacities. Which will be the main development direction of China’s manufacturing industry (AsiaTradeHub, 2012).

1.2 Problem Discussion

Many scholars have pointed out that research into strategic management has become the main issue in SMEs because of its role and contributions to economic development (Johnston, Scholes & Whittington, 2007). On the other hand, it is an important tool for firms to achieve their goals so as to carry its business scale to the largest level, as well as increase its economic or social status. However, some scholars still argue that strategic management cannot work very well in SMEs since they have limited resources and have many constraints (Analoui and Karami, 2003).

Previous researches have shown that there are still many owners and managers of Chinese manufacturing SMEs that are unaware of the concept of strategic management and does not show much interest to use it since they think it is only beneficial for large firms. They insist on the old operational modes instead of doing strategic management since they do not even know what benefits will be brought to them or what is the bright future that holds for them (Minzberg, 1987). On the other hand, the owners limit employees’ participation into the process of strategy making/structuring or impede their innovative ideas being used into strategic practice since only top executives can set up strategic mission (Chen, 2006).

Moreover, there is another problem obsessing many SMEs which is how to formulate and implement strategies with their limited resources. SMEs are more flexible than large firms, but the limitations impede its economic growth (Merz & Sauber, 1995). Chinese SMEs cannot spend much time and efforts focusing on one strategy since there are other projects under the need to be accomplished and some problems related with employees’ salary and working condition are under the need to be solved. On the other hand, the owners of Chinese SMEs cannot focus on one strategy with uncertainty since the Chinese culture is traditional and conservative (Chen, 2006).

Capital resource could also be one obstacle which blocks their rapid growth. A number of them are still relying on the low-cost access to gain a variety of key resources in order to achieve their business goals, as well as learning core
technological knowledge from other large firms and copying the successful companies’ business model to save time and costs (Studa.net, 2011). In this regard, it is hard for the Chinese SMEs to find the right way for long-term development since they are only pursuing short-term benefits. On the other hand, it will directly influence the Chinese SMEs to have clear understanding of their competitive advantage for the long-term development.

Besides, many SMEs are staying away from strategic management, as a result of which they lack the persistence and passion to find the most suitable way to support its economic growth by exploring their own strategic planning (Analoui & Karami, 2003).

1.3 Purpose and Research Questions

This study is about to find out whether and how strategic management is employed in the Chinese manufacturing SMEs, as well as to explore the main characteristics of the strategic management process in these SMEs. It aims to work as a reference for the senior managers in these firms to better improve and utilize the strategic management tools for their future growth. Based on this purpose, the following research questions are formulated:

1. What are the senior managers’ attitudes toward strategic management in the Chinese manufacturing SMEs?
2. What are the factors that impact the strategy development in the Chinese manufacturing SMEs?
3. What are the main characteristics of strategic management in the Chinese manufacturing SMEs?

1.4 Delimitation

Since this paper focuses on the SMEs in the manufacturing industry in the China, hence, it may not be generalized to the wider population of SMEs in China. On the other hand, it is difficult to generalize the broader results since the research has limited sample size.

1.5 Major Definitions

This section will define the relevant concepts that will be used in this thesis.

Strategy:

Strategy is the direction and scope of firms in the long run that will bring benefits for the firms through combinations and allocations of resources for carrying
out the firms’ major goals and missions within a challenging environment. The firm’s strategy involves internal competitive capacities and actions and external potential opportunities (Johnson, Scholes & Whittington, 2007).

**Strategic Management:**

Strategic management is a systematic approach to manage the set of decisions and actions which determines the long run development of a corporation in order to meet the changing environment and enhance the firms’ behavior both in their internal and external environments. It involves four elements: environmental scanning, strategy formulation, strategy implementation and strategy evaluation (Figure 1) (Analoui & Karami, 2003).

![Figure 1: Strategic Management Process (Carpenter & Sanders, 2009)](image)

**SMEs (Small and medium-sized enterprises):**

There is not a universal definition for small and medium enterprise (SME). Instead, it is usually defined based on different measures, such as countries, sectors, number of employees, turnover, or annual sales. SMEs in China are identified by employment based; total assets and annual business revenue vary by different industries (see Table 1).

<table>
<thead>
<tr>
<th>Size Category</th>
<th>Industries</th>
<th>Employees</th>
<th>Total Assets (CNY)</th>
<th>Sales Turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small</td>
<td>Manufacturing</td>
<td>&lt;300</td>
<td>&lt;40million</td>
<td>&lt;30million</td>
</tr>
<tr>
<td></td>
<td>Construction</td>
<td>&lt;600</td>
<td>&lt;40million</td>
<td>&lt;30million</td>
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<tr>
<td></td>
<td>Wholesale</td>
<td>&lt;100</td>
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<td></td>
<td>Retail</td>
<td>&lt;100</td>
<td></td>
<td>&lt;10million</td>
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<tr>
<td></td>
<td>Transport</td>
<td>&lt;500</td>
<td></td>
<td>&lt;30million</td>
</tr>
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<td></td>
<td>Post</td>
<td>&lt;400</td>
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<td>&lt;30million</td>
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<tr>
<td></td>
<td>Hotel&amp;Restaurant</td>
<td>&lt;400</td>
<td></td>
<td>&lt;30million</td>
</tr>
<tr>
<td>Medium</td>
<td>Manufacturing</td>
<td>300-2000</td>
<td>40-400million</td>
<td>30-300million</td>
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<td></td>
<td>Construction</td>
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<td>Retail</td>
<td>100-500</td>
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<tr>
<td>Category</td>
<td>Range</td>
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<td>Transport</td>
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<td>Post</td>
<td>400-1000</td>
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<tr>
<td>Hotel&amp;Restaurant</td>
<td></td>
<td>30-150million</td>
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</table>

Table 1: The standard of SMEs in China (Liu, 2007)

Manufacturing Industry:

Manufacturing industry involves the use of machines and labor to produce the goods for sales to customers or as used goods in the production process (ehow.com, 2012). It is broadly categorized into electronics industries, textile industries, plastic industries, construction industries and telecommunication industries (Pratten, 2003).
2. Literature Review

This chapter will introduce the theoretical background regarding SMEs, Manufacturing Industry, Strategies and Strategic Management which are closely relevant to this subject. In the section of Strategic Management, the four processes in the conceptual model of strategic management are largely focused on since they are the main activities involved in a company’s strategic management process and will be the key threshold examined by the authors in empirical study to see how the Chinese manufacturing SMEs are implementing strategic management. Finally, a framework of the main elements involved in each stage of the strategic management is formed up in the end of this chapter based on the literatures and previous studies examined, and it will be the framework used to conduct the empirical research in the next step.

2.1 Small and Medium Size Enterprises (SMEs)

Since the study mainly focuses on the SMEs in manufacturing industry. It is necessary for readers to understand the definition of SMEs in advance so as to better understand the following sections.

Analoui and Karami (2003) define SME as one that has only a small share of its market is managed in a personalized way by its owner or part-owner and not through the medium of an elaborate management structure. However, there is not a universal definition for small and medium enterprise (SME). Instead, it is usually defined based on different measures, such as countries, sectors, number of employees, turnover, or annual sales. Besides, Choueke and Armstrong (1998) have pointed another problem for setting one definition for SME which is the status of some SMEs owned by large firms.

2.2 Theories of Strategy

To achieve a better study towards strategic management, it is necessary to understand the concept of strategy preliminarily. There are different definitions of strategy in different scholars’ findings. According to Ansoff (1965), strategy is the common thread among the organization’s activities and product markets which decides how the organization was or planned to be in the future. Andrews (1987) has defined strategy as “the pattern of decisions in a company that determines and reveals its objectives, purposes, goals and the major policies and plans for achieving these goals, and defines the range of business the company is to pursue and the kind of company it is to be”. Chandler (1962) has pointed out that strategy is “the determination of the basic long term goals and objectives of an enterprise and the adoption of the courses of action and the allocation of resources necessary for carrying out these goals”. While Minzberg(1987) stated that strategy is “a pattern in a
stream of actions over time”. He also brings 5Ps definition to the strategy, which are plan, ploy, pattern, position and perspective. In addition, Mintzberg and Waters (1985) have provided a different framework of strategy which compares two concepts: planned strategy and emergent strategy. The planned strategy is developed from the strategic making process, and the purpose is very clear, while the emergent strategy is normally emerged from feedbacks or everyday activities in the organization. In addition, Johnson, Scholes and Whittington (2007) see strategy as the direction and scope of firms in the long run that will bring benefits for the firms through combinations and allocations of resources for carrying out the firms’ major goals and missions within a challenging environment. The firm’s strategy involves internal competitive capacities and actions and external potential opportunities.

**Strategy as Practice**

Traditional strategy researchers consider strategy as something what organizations have. However, from the perspective of *Strategy as Practice* (Johnson, Langley, Melin & Whittington, 2007), strategy concerns something what people do, and the context in which they do it. It focuses on the detailed processes and practices in the organizations’ everyday practices and relate to strategic outcomes.

Johnson et al (2007) have also pointed that in the competitive environment, it is crucial for the organizations to shift their strategy making from the conventional well-defined systems of periodical planning and decision making into a much more continuous process which rooted in more day-to-day activities and involve more people in any level of the organization. Therefore, in this research study, the authors will focus on the activities of organizational actors and how these activities influence the companies’ strategic outcomes.

### 2.3 Strategic Management in SMEs

Strategic Management involves a set of managerial decisions and behaviors which determines or impacts the company performance (Analoui & Karami, 2003). The conceptual model of strategic management consists of four elements: environmental scanning, strategy formulation, strategy implementation, and strategy evaluation and control (Analoui & Karami, 2003). However, this model has been re-adjusted and adapted to SMEs due to their size, nature and characteristics by many scholars. For example, Karami (2007) in his study raised a dynamic SME strategic management model which has three stages: awareness: understanding the strategic situation; strategic formulation; and strategic implementation.

In the following sections, the authors will examine the four basic elements in the conceptual model and the performance of SMEs in these processes which were found
by scholars in previous studies, in order to get a preliminary insight into the strategic management in SMEs and form up a study framework for the empirical research which aims to explore the specific characteristics of strategic management in the Chinese manufacturing SMEs.

2.3.1 Environmental Scanning in SMEs

The purpose of environmental scanning is to evaluate the key factors that would impact both today and future development of the enterprise, as well as determine the specific impact factors in the process of strategy formulation (Beal, 2000). An organization’s environment usually consists of two aspects: internal environment and external environment.

• **Internal Environment**

The internal environment of an organization depicts the variables that are within the corporation. It consists of the strengths and weaknesses which include the company’s culture, structure and resources (Beal, 2000). Pettigrew (1992) pointed that it’s crucial for SMEs to recognize the importance of organizational context which can determine the success of strategy implementation. For instance, information collection and analysis can be one important issue to be taken into consideration since critical information will bring the benefits for firm’s strategic development and also impact the future development of strategy even though many SMEs were restricted with their firm size, limited time, limited human and capital resources illustrated by (Garengo, Biazzo & Bitici, 2005). On the other hand, Simon (1993) mentioned that SMEs were eager to find the balance between internal context and the strategic practice which can shape the main direction of the firm. Deep understanding of internal context will bring different strategic outcomes.

• **External Environment**

To distinguish by the direct impact on businesses, external environment can be divided into general environment and specific environment. General environment is the macro-environment that can impact all enterprises in a particular social environment, and it always has direct impact on the enterprises. The PEST module, which includes political, economic, social and technological factors, can be applied when analyzing this environment. While the specific environment means the micro-environmental factors which more directly impact on one specific enterprise (Beal, 2000). These factors involve governments, suppliers, competitors, creditors, employees, trade associations and local communities. Porter (1979)’s five forces model is usually employed to analyze this environment.
From researches done by previous scholars (Wheelen & Hunger, 2000), the process of environmental scanning in SMEs is less sophisticated than that in larger companies because of the size. In this study, the authors will explore in which form the Chinese manufacturing SMEs do the environmental scanning and which aspects they put more emphasize by deploying SWOT, PEST and five forces models.

2.3.2 Strategy Formulation in SMEs

The second stage of strategic management is strategy formulation. It is the process of cooperate the internal strengths and weaknesses to effectively manage the external opportunities and threats (Fowler & Hope, 2007). Many scholars consider strategy formulation in SMEs as a rational strategic planning process, which involves the development of mission statement, objectives/goals, processes and control systems (Karami, 2007). These are also the main issues that will be examined toward the Chinese manufacturing SMEs in this study.

As introduced by Bart (2000), a good mission statement is constituted by aspects include:

- Purpose, value, vision, general corporate goal and a big goal;
- Unique competence, expected competitive position and competitive strategy;
- Behavioral standard;
- Financial and non-financial objectives;
- The specific market, customer and product;
- Self concept, public image pursued;
- Concern for survival, customers, employees, shareholders and society.

Objectives are described as the end result of planned activities. And it should in line with fulfilling the company’s mission. A company might set up its goals and objectives regarding revenue, growth, market share, shareholder’s wealth, etc. (Johnson, Scholes, & Whittington, 2007). It has been argued that objectives in SMEs should be measurable, achievable, and also they should be consistent with each other as well as communicable to others (Klemm, Sanderson & Luffman, 1991).

Stubbart (1989) pointed that managers’ relevant knowledge and skills would play an important role among the whole organization during the strategic formulation. Furthermore, managers’ cognition will lead the comprehensive operation to the firm such as categorizing different employees into suitable positions to formulate strategies by bringing their skills or talents into full play, developing a semantic network (cognitive map) and integrating the employees that have the same cognition for strategic formulation and building up expert system to accomplish the firm’s goals. SMEs needed to achieve information sharing and resources maximization among
different departments by setting up the network. It was also called collaborative networking since employees can cooperate with others to formulate the strategy efficiently (Stubbart, 1989). In this regard, the managers’ role as well as the involvement of employees in the strategy formulation process will also be focused to examine among the Chinese manufacturing SMEs.

2.3.3 Strategy Implementation in SMEs

After strategy is formulated, it is in the need to be implemented. Strategy implementation is the development of programs to put the formulated strategies and policies into action (Wheelen & Hunger, 2000). It concerns with the managerial interventions that align organizational action with strategic intention (Floyd & woolridge, 1998). It will display the final result of firms’ efforts on strategy and also reflect the trend of the firms’ future development. According to previous studies (Lorange, 1998; Karami, 2005), organizational structure, leadership and human resource (employees) play a significant role in strategy implementation.

- **Organizational Structure**

  Scholars believe that organizational structure is the fundamental part for strategies to be effectively implemented and it deals with how the strategy is implemented after formulation (Lynch, 2006). In SMEs, the use of structural features is expected to be correlated with the performance and support the strategy (Miller, 1988). Drazin and Howard (1984) also argued that a proper strategy-structure alignment is a key determinant to the effective and full implementation new business strategies.

  Sanchez and Sanchez-Marin (2005) argued that the firm size allows flexibility which brings positive effects on production and marketing channels. Besides, within the dynamic environment, SMEs are enjoying greater advantages than large companies on their easy adaptability to changes due to the low investment cost and flexibility. In other words, the large organizations are losing their ground on the cost advantages which they were originally enjoying.

- **Leadership**

  The leadership of top managers can have significant influence on the strategy implementation. Merz & Sauber (1995) and Swierczek & Ha (2003) found that SMEs with a diversified, flexible managerial environment can practice better than conservative SMEs such as being risk-taking, innovative and proactive that will put firms into more competitive, changing posture, compared to the less innovative SMEs adopt a more “wait and see” posture. Among this, Swierczek & Ha (2003)
demonstrated that managers with high risk taking capacity, high degree of innovation and high level of proactivity will result in better strategic practice. On the other hand, their actions and core capabilities will influence the employees’ behaviors during the strategic implementation process and also operate the business environment in a long term growth. Burgelman (1983) illustrated the positive relationship between leadership and strategic implementation. The managers or top chief executives had strong and comprehensive leadership will lead to the formulated strategies into full utilization.

♦ Human Resource

More and more researches are stressing on the importance of the involvement of employees at all levels in decision making and actions, and it is fundamental to effectively communicate the strategy among all people within the organization, instead of the people who originally made the strategy (Analoui, 2000). Scholars have declared that there is a significance to utilize a firm’s human resources in its strategies, especially in the process of strategy implementation (Lee, Lee & Wu, 2010).

In this study, the Chinese manufacturing SMEs will be examined from the above three aspects – structure, leadership and human resources to analyze the characteristics of strategy implementation in these firms.

2.3.4 Strategy Evaluation and Control in SMEs

The last process of strategic management is evaluation and control, during which the corporate performance is compared with its expectations. Meanwhile, managers collect information from their subordinates to take prompt and corrective actions to solve problems (Analoui & Karami, 2003). The strategy evaluation and control is the last stage in the strategic management model. Therefore, based on the compared result with desired performance, managers should make adjustments in the formulated strategy and/or the implementation (Karami, 2007).

Anderson & Sohal (1999) pointed out that strategic evaluation and control is significantly important that should not be ignored by any companies. It aims at examining whether the feasibility and practicality of strategies fit into the firms’ economic development or not. There are three main aspects needed to be considered by managers: the quality of product, customer demand and service since they should review internal and external factors again, determine whether the chosen strategy is in accordance with the firm’s goal so as to be able to take corrective actions.

The evaluation and control in SMEs is similar to that in large organizations. The only difference lies in the extent of the evaluation. In other words, the traditional
measure of firm performance which is derived from researches on large organizations cannot be entirely applied to SMEs (Levin & Travis, 1987). Many scholars have agreed that performance is the key for strategy research (Venkartman & Ramanujan, 1986). However, the arguments lie on the appropriateness of different approaches to the measure of firm performance (Beal, 2000). Strategy in SMEs cannot be simply measured by financial performance such as return on investment, market share, profit margin, and sales to evaluate whether they are success or not. Instead, there is a trend of incorporating non-financial measures to financial measures during the evaluation and control process to see the firm performance (Beal, 2000). Thus, whether and how the Chinese manufacturing SMEs employ evaluation and control mechanisms are to be explored in the following empirical research.

2.4 Summary of the Theoretical Framework

To sum up, this chapter aims to give the readers an understanding over the concepts toward SMEs, strategy, strategic management as well as the link between strategic management and SMEs. In the conceptual model of strategic management, there are four processes involved which are environmental scanning, strategy formulation, strategy implementation and strategy evaluation and control. However, not every company entirely follows the steps when applying strategic management in their companies. Especially in SMEs the strategic management is usually carried out in their own methods and with an informal pattern comparing to the conceptual model.

A theoretical framework (Figure 2) has been formed up based on the literatures reviewed to work as a threshold for the empirical research in the next step.
Figure 2: Strategic Management Model

Environmental Scanning:
- External environment
- Data collection & analysis
- Internal environment
- PEST
- Five forces

Strategy Formulation:
- Strategic business planning
- Mission
- Objectives
- Process
- Manager's role & employee involvement

Strategy Implementation:
- Organizational structure
- Leadership
- Human resource

Strategy Evaluation & Control
- Strategy Evaluation
- Strategy Control
3. Methodology

This Chapter explains the methodological terms in scientific research and the method chosen to conduct this study through a discussion on the relevant theoretical concepts which include philosophy of science, research approach, research strategy as well as the data collection and data analysis processes. It aims to give the readers an overview about how the authors determine the research sample and how the empirical data are gathered. Moreover, in the end of this chapter, there is a discussion on the trustworthiness issues regarding how we ensure the reliability and validity of the empirical findings.

3.1 Philosophy of Science

It is important to define the research philosophy at the first stage since it assumes how you view the world and will impact the research strategy and the research method (Saunders, Lewis, & Thornhill, 2003). There are two major types of research philosophy which stands against each other: positivism vs. hermeneutics.

**Positivism** is the philosophy which emphasizes working with an observable social reality (Saunders, Lewis, & Thornhill, 2003). It focuses on reliability, validity and generalization of the measurement and its predictions of cause and effect (Cassell & Symon, 1995). According to positivism researchers, the nature of reality is objective and independent of time and place, as well as the respective discoverer. The research techniques within positivism philosophy are usually highly structured. Quantitative method is most often used.

Contrarily, **hermeneutics** stands that there is no clear-cut objectivity or reality (Cassell & Symon, 1995). It is a type of interpretivism philosophy, which focuses on the details of situation, a reality behind these details and subjective meanings motivating actions. Hermeneutics advocates that the nature of reality is subjective and socially constructed. The research results can be different between researchers since the results are subjective. The relative research is normally conducted within small samples by in-depth investigations. Qualitative method is usually selected (Saunders, Lewis, & Thornhill, 2003).

Based on the introduction of two philosophies above, the **hermeneutics** philosophy is selected for our study. Therefore, we are planning to conduct our empirical research by investigating a small group of objects and to analyze the findings in relation to our knowledge.

3.2 Research Approach and Research Method
There are two major approaches to conduct research projects: deductive and inductive. The deductive approach is to develop a theory and/or hypotheses and then design a research strategy to test the hypothesis, while the inductive approach is to collect data and develop new conceptual framework based on the data analysis (Saunders, Lewis, & Thornhill, 2003).

Quantitative and qualitative are the two main methods of research in the social science. Quantitative research usually associates with gathering numerical and standardized data and will be analyzed through the use of diagrams and statistics. On the other hand, qualitative research is more subjective, and it involves collecting non-standardized data and analyzing through the use of conceptualization. (Saunders, Lewis, & Thornhill, 2003)

Within this study, interviews are conducted to a sample fifteen companies by questions concerning ‘who?’, ‘how?’ and ‘why?’ for us to gain a qualitative understanding of the underlying meaning followed by data categorizing and analysis, which is in line with the qualitative method. Furthermore, the object of this study is the manufacturing SMEs in China. However, there is not yet a conceptual framework developed specifically regarding strategic management in the Chinese manufacturing SMEs for us to test. Therefore, instead, we will use the inductive approach to develop our initial understanding based on the empirical findings and the literatures studied regarding strategic management in general SMEs.

3.3 Sampling

Our sample selection is based on both quantitative measures and qualitative measures. Quantitatively, number of employees and sales turnover are the two measures that are employed. As mentioned in the introduction chapter, we will focus our study in the manufacturing industry. According to the definition of Chinese SMEs of different industries, the limit range for our selection would be: number of employees varies between 0 and 2000; and turnover ranges from 0 to 300million Chinese Yuan (Liu, 2007).

Qualitatively, we employ the definition of SMEs formulated by Scott and Bruce (1987) which sets three characteristics:

1. Management is independent and is free from outside control to take decisions; usually managers are also the owners;
2. An individual or a small group holds the ownership of the capital;
3. Area of operations is mainly local, but markets need not be located in the same community.
On the basis of the above quantitative and qualitative standards, the sample of research has been framed to the 15 companies which were selected from our convenient group as in the following table:

<table>
<thead>
<tr>
<th></th>
<th>Company Name</th>
<th>Interviewee Position</th>
<th>Company History (till 2012)</th>
<th>Industry</th>
<th>Number of Employees</th>
<th>Sales Turnover2011 (CNY)</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Chao Zhou Xin Wei Cheng Co.,Ltd</td>
<td>Vice General Manager</td>
<td>19 Ceramics</td>
<td>350</td>
<td>63 Million</td>
<td>Chao Zhou</td>
<td></td>
</tr>
<tr>
<td>B</td>
<td>Mu Wei Tang Co., Ltd</td>
<td>Vice Manager &amp; Marketing Manager</td>
<td>20 Furniture</td>
<td>150</td>
<td>40 Million</td>
<td>Da Lian</td>
<td></td>
</tr>
<tr>
<td>C</td>
<td>Huayi Steal Co., Ltd</td>
<td>Financial Manager</td>
<td>10 Steel</td>
<td>370</td>
<td>157 Million</td>
<td>Fo Shan</td>
<td></td>
</tr>
<tr>
<td>D</td>
<td>Xin Jia Zhi Technology Co., Ltd</td>
<td>CEO</td>
<td>7 Machinery Components</td>
<td>12</td>
<td>2 Million</td>
<td>Jiu Jiang</td>
<td></td>
</tr>
<tr>
<td>E</td>
<td>Tian Tian Cloth Co.,Ltd</td>
<td>CEO</td>
<td>8 Cloth</td>
<td>300</td>
<td>200 Million</td>
<td>Guang Zhou</td>
<td></td>
</tr>
<tr>
<td>F</td>
<td>Zhu Jiang Vehicle Co., Ltd</td>
<td>General Manager</td>
<td>21 Motorcycle/Engine</td>
<td>500</td>
<td>76 Million</td>
<td>Zhu Hai</td>
<td></td>
</tr>
<tr>
<td>G</td>
<td>Guangzhou Haojin Group Co., Ltd</td>
<td>General Manager</td>
<td>12 Motorcycle/Machinery/Engine</td>
<td>850</td>
<td>284 Million</td>
<td>Guang Zhou</td>
<td></td>
</tr>
<tr>
<td>H</td>
<td>Jiangmen Shen Qiang Plastic &amp; Machinery Co., Ltd</td>
<td>General Manager</td>
<td>15 Plastic Molding</td>
<td>400</td>
<td>113.4 Million</td>
<td>Jiang Men</td>
<td></td>
</tr>
<tr>
<td>I</td>
<td>Hao Jian Motorcycle Co., Ltd</td>
<td>CEO</td>
<td>12 Motorcycle</td>
<td>250</td>
<td>56.7 Million</td>
<td>Pan Yu</td>
<td></td>
</tr>
<tr>
<td>J</td>
<td>Yi Wu Shi Shun Jewelry Manufacturer</td>
<td>CEO</td>
<td>15 Jewelry/Necklace</td>
<td>50</td>
<td>25.2 Million</td>
<td>Zhu Hai</td>
<td></td>
</tr>
<tr>
<td>K</td>
<td>Shenzhen Lukai Rubber &amp;</td>
<td>Vice CEO</td>
<td>10 Silicone Products</td>
<td>40</td>
<td>31.5 Million</td>
<td>Shenzhen</td>
<td></td>
</tr>
</tbody>
</table>
Table 2: List of Interviewed Companies

All of the interviewees are among the top management team because these people are basically the decision makers in the SMEs and therefore have better understanding of strategic management process within their companies.

3.4 Data Collection

Within this research subject, it requires to explore many complex questions regarding people’s experiences, opinions, values and attitudes, such as ‘how do you perceive the impact of political, economical, social and technical issues on your company’s business and strategy?’, ‘how do your company implement a strategy after formulated?’. Therefore, simple questionnaire surveys are not sufficient for this study, while personal interview is a more appropriate technique for us to explore in-depth insights and clarify concepts. According to the level of formality and structure, the types of interviews can be categorized as: structured interviews, semi-structured interviews, and in-depth interviews (Saunders, Lewis, & Thornhill, 2003). In such case, semi-structured interview, by which we ask main questions and make more detailed questions based on the answers (Yin, 1994), would be the most effective method to gather the data because the authors are able to ensure that the respondents understand the questions. Furthermore, the authors can also encourage the respondents to explain complex questions and to correct the respondents’ misunderstandings (Judd, Smith & Kidder, 1991).

The interviews were conducted in Chinese through telephone upon the appointments made in advance. All of the interviewees were firstly briefed about the
background and objectives of this research. Each of the interviews lasted around 60 minutes with the data recorded by note-taking. After the interviews, the received information were written out and sent to the respondents to check for misinterpretation and to confirm the permission for use of these data.

3.5 Data Analysis

In order to analyze the data effectively and accurately, firstly the data reduction is a necessary step. We have designed a standard questionnaire (Appendix 1) for fifteen interviewees and collected the data person by person in order to inspect the information collected under each questions for similarities and differences, then data reduction is done by highlighting the relevant information for analysis. Next, some of the findings are summarized and displayed by using statistical graphs such as bar charts, flow charts, histograms and tables in order to get a clear picture. The others that are more focusing on the literal expression to reflect the insight of this study are categorized and displayed by using direct quotes from the interviewees. We selected the quotes which are most typical and clear answers under each category. On the basis of theoretical foundation, our findings are closely related to the framework of the four steps of strategic management. For instance, in the section of environmental scanning, we proposed four key points for analysis which include the impact of PEST, the impact of Five Forces, significance of internal/external factors as well as data collection and data analysis by incorporating previous studies and our own research findings. To sum up, we are expecting to accomplish detailed analysis point by point in order to give clear discussion to readers and to draw implications on the basis of theoretical background and empirical findings.

3.6 Trustworthiness

The validity is the degree to which interpret the empirical findings in order to give a correct and logic understanding of findings to the readers (Mc Hugo, Drake, Brunette, Xie, Essock & Green, 2006). Creswell and Miller (2000) pointed that the validity is concerned with the researcher’s perception of validity in his/her study, for instance, what/how they interpret findings in his/her way need to be considered. However, some researchers argue that ‘validity’ is not applicable to qualitative researches since it’s difficult for researchers to take control of interviewees’ bias. So Golafshani (2003) pointed out that the issue of validity on the basis of different qualitative researches should be regarded. The researchers are willing to give logic and easy finding results to readers by minimizing their different bias since the quality of research findings is also concerned with increasing and maximizing the validity of the research. The more the validity is maximized, the more credible the result is.
During the interviews, the interviewees feel free to express opinions in own way. Moreover, they are given additional time to add and clarify their initial answers when routine time runs out. In order to overcome the disadvantages of interviewees’ bias, the authors will only use English letter to replace the interviewees’ real names. We also assured the interviewees to guarantee the confidentiality of the entire discussion.
4. Empirical Findings and Data Analysis

It has been introduced in the Methodology chapter that the method of data collection in this research is personal interviews. In this chapter, the data collected through the interviews will be categorized and presented. In order to analyze the data comprehensively, the data are summarized by using descriptive statistics, and some direct quotes from the interviews are also used. The whole chapter is structured according to the framework of strategic management which is drawn from the chapter of Literature Review.

4.1 Environmental Scanning

Environmental scanning is the first step in strategic management during which the firms use information to develop strategies (Karami, 2007). In this section, the environmental scanning in Chinese manufacturing SMEs is explored by examine the impact of PEST, five forces and SWOT factors in their business strategies, as well as the data collection and data analysis processes in these companies.

♦ Impact of External Factors (PEST)

It has been discussed in the literature review that the external environment is a key factor which impacts a company’s strategy development. In this regard, the respondents were asked to indicate how the external factors (political, economic, social and technical) impact their business and strategy in order to evaluate whether the Chinese SMEs take the external environment factors into consideration when formulating strategies, as well as to evaluate the importance of external factors in formulating business strategies in Chinese SMEs. From our findings as showed in Table 3, economic factor is perceived by all of the studied companies to have big impact on their business and strategies; more than half of them also indicated the impact of political issues from the aspects such as favorable and unfavorable government policies, political instability in some foreign regions, etc.; while the social and technical factors do not have big impact in most of them.

<table>
<thead>
<tr>
<th>Environmental factors</th>
<th>Number / Percentage*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political</td>
<td>9 / 60%</td>
</tr>
<tr>
<td>Economic</td>
<td>15 / 100%</td>
</tr>
<tr>
<td>Social</td>
<td>5 / 33%</td>
</tr>
<tr>
<td>Technical</td>
<td>6 / 40%</td>
</tr>
</tbody>
</table>

Table 3: Importance of Environmental Factors in the Studied SMEs

* Number/Percentage of the companies that indicated the importance of this factor in their business strategies
For example, Company A as a SME within the ceramic manufacturing industry is greatly affected by the political and economic factors resulted by the political instability in the Middle East market and financial crisis in the Europe and America, while the social factors are not considered to have big impact on their business strategies:

“Currently, the political situation in the Middle East is very instable; especially Europe and the USA are economically blocking Iran. This leads to that many ceramic companies like us which focus on the Middle East market are off production. From the economic aspect, the financial crisis in the Europe and America also has very big impact on our company. Firstly, since ceramics are not necessities in people’s everyday life. Sales of this kind of durable goods decreased dramatically. Secondly, although the economic situation is negative, the prices of raw materials are continuously increasing. However, at the meanwhile, the customers do not accept our price to increase. Therefore, the space of our profit margin is squeezed. There is not very big impact of Technology issues on our company, but the increasing cost of labor force is forcing us to buy manufacturing equipments to replace some of the workmen. Besides, I don’t think the social factors have obvious impact on us.” (Vice General Manager – Company A)

On the other hand, Company B is an example whose strategies are affected by political, social and economic aspects due to the governmental policies, while technological factors don’t have much impact:

“From the political aspect, in China there are no governmental policies supporting SMEs which make us having no advantage to compete with large companies. Since last year, due to the new real estate policies in China, many real estate companies went bankruptcy and the purchase of new houses decreased. As a result, the demand for our product (furniture) also went down dramatically. Furthermore, currently the economic situation in China is not very stable. It also has negative impact on our sales turnover. Regarding social issues, Chinese people’s increased awareness of environmentally friendly has promoted their demand for our furniture with zero-formaldehyde. It has brought a lot of advantages for us to compete with other furniture manufacturers. Since we are a traditional industry, we are not affected a lot by technological issues.” (Vice General Manager – Company B)

♦ **Impact of Five Forces**

Except for the environmental factors, the impact of the factors within the industry is also worth to be investigated. The Porter’s five forces model is used to do the assessment. The respondents were asked to whether and how the five forces which
include bargaining power of supplier, bargaining power of buyer, threat of new entrants, threat of substitutes and rivalry among existing firms affect their companies’ strategies. As summarized in the following table, the result shows that within the Chinese manufacturing industry, the bargaining power of customers (n=14, p=93%) is regarded as the most important factor that influence the SMEs’ business strategies; rivalry among existing firms (n=12, p=80%) followed closely to be the second important factor; the threat of substitute (n=11, p=73%) is the third important influential factor, while only less than half of the respondents indicated the threat of new entrants (n=5, p=33%) and the bargaining power of suppliers (n=3, p=20%) have big impact over their business strategies.

<table>
<thead>
<tr>
<th>Five Forces</th>
<th>Number / Percentage*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Suppliers’ bargaining power</td>
<td>3 / 20%</td>
</tr>
<tr>
<td>Customers’ bargaining power</td>
<td>14 / 93%</td>
</tr>
<tr>
<td>Threat of new entrants</td>
<td>5 / 33%</td>
</tr>
<tr>
<td>Threat of substitutes</td>
<td>11 / 73%</td>
</tr>
<tr>
<td>Rivalry among existing firms</td>
<td>12 / 80%</td>
</tr>
</tbody>
</table>

Table 4: Importance of Five Forces Factors in the Studied SMEs

*Number/Percentage of the companies that indicated this factor has impact on their business strategies.

Company A and F are two typical examples that the bargaining power of customers, rivalry among existing firms and the threat of substitute are three most important factors that affect their decision making due to the increased competition, while the threat of new entrants and the bargaining power of suppliers only have comparatively slight or no impact since they can easily shift to other suppliers with lower prices:

“Suppliers’ bargaining power - this doesn’t have big impact on us. Because of the fierce competition, if the price of the supplier is too high, we can re-choose the supplier.

Customers’ bargaining power - this has very big impact on us. Every customer wants to buy high value product with the lowest price. However, from the aspect of companies, we have our structure of cost, especially now the raw materials are becoming more and more expensive, thus it’s even more difficult for us to do the cost control. However, there are also many other factors that our clients would consider except for price. They might be willing to pay a bit higher if we can provide high quality, good credit and long-term cooperation.

The threat of new entrants - it is vital for us only if the new entrant has new technology or advanced cost control system, or they developed novel products, or they
have integral distribution channel.

The threat of substitutes - it is also vital for us. The substitutes are strongly hitting our market share in the whole ceramic industry. Since ceramics are high pollution and high energy-consumption products, there are constantly new substitutes arises to compete with us, but not yet fully substitute our market position. Therefore, we are also considering about developing new products with environmentally friendly materials.

Rivalry among existing firms - there are no big differences between competitors and our firm in the aspects of prices, market positioning and distribution channels. However, if a rivalry has better technology advantage than us, they have big impact on us.” (Vice General Manager – Company A)

“Suppliers’ bargaining power - it doesn’t have impact on us since we can re-choose the suppliers when we think the current suppliers are not qualified.

Customers’ bargaining power - it has a direct impact on our sales profit and the paid price to suppliers. What’s more, because of the increasing price of transportation and raw materials we have less profit to earn. Therefore, we need to negotiate with our customers who are willing to keep the long-term relationship with us to make the most acceptable unit price and achieve our profit ratio between 15 percent and 20 percent.

The threat of new entrants - it is not vital for us because we have enough assets and resources in the region of Zhu Hai.

The threat of substitutes & rivalry among existing firms – both of them are impacting us in a large extend. Due to the strict regulations in the European motorcycle industry, it is very resource and time consuming for us to improve our product and to relocate market share while other competitors already entered the European market. It has a big influence on the development of our strategic plans for the European market.” (General Manager – Company F)

However, the general manager of company M has mentioned that the threat of new entrants can on the contrary have positive impact over their business strategies and development since it stimulates their innovation activities:

“Most of the SMEs are fear of the competition from entrants or existing firms. They are worried about the loss of customers and market share. But from my perspective, it also can be one positive aspect encouraging us to focus more on our product innovation and technological innovation in order to catch up the market trend.

* Significance of Internal and External factors (SWOT) in Strategy Development
In the literature review chapter, it has been discussed that the internal strengths and weaknesses together with the external opportunities and threats should be examined when developing the firm’s business strategy. Therefore, in this research, the senior managers’ perceptions toward the significance of these four factors in developing strategies are explored. We have given them four levels of significance levels to choose – not important, slightly important, important, and very important. From the findings, regarding external factors, 87% of the respondents think the opportunities are very important factors in developing business strategies, while most of them showed that the threats are only with slightly importance (47%) or not important (33%) in developing business strategies. About the internal factors, the respondents revealed that they give more priority to their internal strength (93% of them consider it as very important). In the contrary, majority of the respondents think the internal weaknesses are not important (27%) or only slightly important (53%) when developing the strategies.

<table>
<thead>
<tr>
<th>Significance Level of Factors</th>
<th>Strength</th>
<th>Weakness</th>
<th>Opportunity</th>
<th>Threat</th>
</tr>
</thead>
<tbody>
<tr>
<td>very important</td>
<td>93%</td>
<td>0%</td>
<td>87%</td>
<td>7%</td>
</tr>
<tr>
<td>important</td>
<td>7%</td>
<td>20%</td>
<td>13%</td>
<td>13%</td>
</tr>
<tr>
<td>slightly important</td>
<td>0%</td>
<td>53%</td>
<td>0%</td>
<td>47%</td>
</tr>
<tr>
<td>not important</td>
<td>0%</td>
<td>27%</td>
<td>0%</td>
<td>33%</td>
</tr>
</tbody>
</table>

**Figure 3: Significance of SWOT Factors in the Studied SMEs' Strategy Development**

*Data Collection and Analysis*

This research also attempt to explore how the Chinese SMEs collect the data of environmental factors as well as how they analyze the data. It was found that most of the companies (n=9, p=60%) have their own methods and channels to access the external information, such as exhibitions, personal relationship, online data-base, or market research by sales department. They also explained that the senior managers periodically organize meetings to analyze the collected information in order to better position themselves and make adjustments to improve their future plan and business
strategy. In the contrary, few of them (n=6, p=40%) stated that the owner managers know the market situation and their competitive advantage, so that they don’t need to gather information in a systematical way. Besides, some of the interviewed companies mentioned that they have information systems installed to support information sharing and analysis within their firms.

For example, company A has many ways to collect external information, but the managers’ personal contacts are their key sources. And their data analysis is normally done through informal discussion between senior managers in their general meeting:

“We have a couple of ways to collect data about our competitors, such as exhibitions, internet, suppliers, but mostly from the contacts of the factory managers. Regarding market information, our sales staff would do some surveys or visit clients, and I know some designers, they are also the key source of such information.

In tradition industries like us, we normally don’t have specific market analyst. In our company, we have two meetings each month to discuss and analyze the collected information. For example regarding the market, the sales managers and general manager would have a meeting to discuss the market situation and trend, international trend, financial situation and so on. We also do internal analysis periodically in order to position ourselves and develop the right products. Since the educational backgrounds of the managers in our firm are mostly very low, we can’t do it systematically and sequentially.” (Vice General Manager – Company A)

A bit differently, in company F and G whose business scales are comparatively larger with the number of employees above 500, their data collection and analysis systems are much more formal. They have special people or department responsible for collecting the data, and there are also information systems installed within the company for information sharing.

“We do not have specific market research department, instead, the salesperson are mainly responsible for seeking and collecting information about our competitors and the market. Besides, the foreign salesperson might also participate in some foreign exhibitions, or use online database (e.g. global source.com, made in china.com), while the domestic salesperson sometimes visit our clients to get in-depth feedbacks. Afterwards, they will report the collected information to the managers of different departments and me. Board meetings will then be organized to analyze the information to get clear understanding of the external environment.

For the company’s internal factors, we have Office Automation System (OAS) installed throughout the whole firm in order to achieve information sharing and communication between each department. The Financial Department has a set of Jin
Shan management of accounting system since they need to summarize the workers’ salary and sales figures every month. We divide our sales business into two parts: one focuses on the domestic market and another focuses on the foreign market. The salesmen often use QQ (an online-chatting software) to communicate with domestic customers, while the salespersons in the foreign trade department always use Skype and Windows Messenger to chat with our foreign customers when quoting prices and negotiating contracts.” (General Manager – Company F)

“We have an information and service department which is responsible for seeking the market information and send them to managers of each department, as well as collecting feedbacks from our customers. Besides, they also receive the employees’ advices as well as complaints toward the company. We have bi-monthly managerial meetings with all managers of each department and general manager to discuss about both the external and internal information collected.

Since there are about 850 employees in our company, it is very important for us to use information systems for the information sharing and communication. We have OAS and ERP systems installed throughout the firm for many years. Recently, SAP is also being used between Warehouse and Purchasing department in order to manage the materials and products in an efficient way.” (CEO – Company G)

4.2 Strategy Formulation

In the strategy formulation process, the companies’ mission statement, goals, strategic planning and the form of planning are the main issues which thereby have been investigated in this study.

- **Formulation of Mission Statement and Goals**

The respondents were asked whether they have a formulated mission statement and goals in their companies, and if yes what is it. The result shows that 12 out of the 15 SMEs have a company mission, but among these 12 firms, only 7 have a well-defined formal mission statement, while the other 5 have a general goal for their future business which is only known by the top managers. The rest 3 respondents mentioned that they don’t have a mission statement in their companies.
Company B is one example that has a formal mission statement which involves the aspects regarding corporation, product, service, human resource, investment as well as strategy.

“Mission: Produce healthy product, protect the society.
Service: Establish the best customer relationship.
Investment: Investment decision is based on thorough research; return on investment is based on systematic management.
Corporate Strategy: Guarantee the stable development of the domestic market and expand to foreign market.” (Vice General Manager – Company B)

The mission statement of company H is informal with only simply defined mission and goal:

“Mission: Quality First, Price First, Customer First.
Goal: Strengthen the domestic market share, increase the influence foreign markets” (General Manager – Company H)

Differently, the CEO of Company D which is a micro-firm with only 12 employees mentioned that they don’t have a mission statement:

“Mission: Since we are just a small company, we don’t have a company mission formulated.
Goal: We want to achieve the top position in this industry.” (CEO – Company D)

**Forms of Business Planning**

Since business planning is an important element in the formulating of business strategies, the respondents were asked whether they have a business plan in their
companies. According to the findings, majority (n=11, p=73%) of the studied SMEs employed business planning mechanisms and these respondents showed that they believe a formal business planning is very important for the development of their business, while the other small portion (n=4, p=27%) stated that they don’t have either formal or informal business plans. For the 11 respondents who have business plans, we furthered asked what are the components that make up the business plan. 9 of them explained that they employed financial planning with short term (1-2 years) financial objectives, as well as operational plan regarding production, distribution, contacting customers and etc., while the other 2 of them stated that their business plans incorporate mission statement, environmental analysis, long term and short term goals, as well as marketing plan and operational plan. The characteristics are summarized below in Table 5:

<table>
<thead>
<tr>
<th>Forms of Planning</th>
<th>Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Planning (27%)</td>
<td>No mission statements</td>
</tr>
<tr>
<td></td>
<td>No long term objectivities</td>
</tr>
<tr>
<td></td>
<td>Slight stress on short term objectivities</td>
</tr>
<tr>
<td></td>
<td>No formal or informal business plan</td>
</tr>
<tr>
<td>General/Informal Planning (60%)</td>
<td>Informal mission statement</td>
</tr>
<tr>
<td></td>
<td>Emphasize on short term (1-2 years) financial objectivities</td>
</tr>
<tr>
<td></td>
<td>Stress on operational controls</td>
</tr>
<tr>
<td></td>
<td>Informal strategic objectives</td>
</tr>
</tbody>
</table>

Figure 5: Forms of Business Plan in the Studied SMEs

![Pie chart showing 73% have business plan, 27% do not have business plan]
Formal Planning (13%)

- Emphasis on long term (3-5 years) objectivities
- Written mission statement
- Stress on formal strategic planning regarding market and operation
- Formal strategic objectivities

Table 5: Business Planning Forms and Characteristics in the Studied SMEs

- **People Involved in Strategic Planning**

  For the question “which people are involved in preparing your company’s strategic business plans”, we got the result that in 80% of the responded companies, the senior managers are primarily responsible for the business planning activities, while the other 20% stated that middle managers such as marketing manager, financial manager and/or factory manager are also contributing to develop the business plans. However, none of the companies involve people from other levels into this process.

<table>
<thead>
<tr>
<th>Involvement</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior managers</td>
<td>80%</td>
</tr>
<tr>
<td>Middle managers</td>
<td>20%</td>
</tr>
<tr>
<td>Others</td>
<td>0%</td>
</tr>
</tbody>
</table>

Table 6: Employees’ Involvement in Strategic Planning in the Studied SMEs

4.3 Strategy Implementation

As discussed in the literature review, organizational structure, leadership and employees are three important elements which decide the effective implementation of formulated strategies. In this study, the interviewees were examined whether and how these three factors are given regards to in their companies during strategy implementation.

- **Organizational Structure**

  The respondents were asked to explain their organizational structure with charts. We found that all of them are either with a flat model except for one with low-hierarchical model, which means there are only few levels of intervening management in their companies. Besides, the interviewees also explained what departments they have in their organization and the main responsibility of departments take.
For instance, in company A, the organizational structure is very simple with only three hierarchical levels: general manager → vice general manager → middle managers of four departments:

“*We have a flat organization structure in our company. As vice general manager, I am responsible to assist the general manager with decision making as well as directing the whole company. We have four departments, including designing department, sales department, administration department and the factory.*” (Vice General Manager – Company A)

While in the case of company F, their organizational structure is also in a flat mode, but they have more departments divided according to the functions:

“*I am the general manager to manage seven departments. Among them, our factory, R&D department and Quality Control department especially take greater pressure and responsibility to implement strategies than other departments. They are responsible for innovating products and guaranteeing the quality of products. On the other hand, they also need to manage employees of own department.*” (General Manager – Company F)

Furthermore, we also explored how they deal with sudden problems or changes in order to examine the effectiveness of the organizational structure in the process of strategy implementation. Most of them mentioned that since their companies are not in big scale business they haven’t encountered very serious problems or changes. For general cases, normally the middle managers take supervisory control over these cases and take actions when unexpected problems or changes happen. But if the problem or change is overpass their control, the senior managers will be informed quickly and they will immediately hold a board meeting to discuss about it. Usually actions can be
taken promptly to avoid big loss.

- **Leadership and Employees**

  Through our investigation, we noticed that in all of SMEs leadership plays crucial role in the strategy implementation process. The strategy should be firstly discussed and confirmed by the top managers and/or shareholders through board meetings, and then transmitted top-down to the relevant departments to implement it. The respondents also mentioned that they perceive highly skilled and motivated employees as an important factor to ensure the successful implementation of strategies. Most of the studied companies have recruiting standard regarding working experiences and/or educational background especially against middle managers. Besides, among the 15 companies, 6 of them provide trainings or study opportunities to employees periodically. However, none of them responded that they put emphasis on letting employees from all levels to have a fully understanding toward the comprehensive strategic plan and the context when the top managers are assigning the instructions.

![Diagram showing top-down instructions in SMEs]

**Figure 7: Top-down Instructions in the Studied SMEs**

For example, although the flows of strategy implementation in company H and company M are through different functional departments, both of them are following a top-down instruction model which means the senior managers make the decision and then transmitted to the sub-departments:

“Once the strategy is confirmed by the top management, the general manager and vice general manager will announce the planning to each department for the subordinates to implement it through the guidance and assistance of the team-leaders. At the meanwhile, the general manager and vice general manager are responsible for supervising and directing the team-leaders. When necessary, the general manager...”
and vice general manager would listen to the subordinates’ suggestions and advices to make some adjustments to improve the efficiency of implementing the strategy.” (General Manager – Company H)

“The strategy is firstly decided by the managers and shareholders. Then the managers will share the collective information to each department. Afterwards, the factory and R&D department will design and produce the new product. At the meanwhile, the quality control department will ensure to guarantee the quality of the product. While everything goes on successfully, the sales department will organize promotion activities to introduce the products to our targeted customers.” (General Manager – Company M)

4.4 Strategy Evaluation and Control

Strategy Evaluation

We asked the interviewees whether they would evaluate the strategy after it has been implemented and how they do the evaluation. All of the 15 interviewees mentioned that the strategy evaluation in their companies is through financial measures done by collecting customer feedbacks and watching the sales volume, while only 2 (company F and I) out of the 15 companies also pay attention to reviewing the quality of product and service before negative feedbacks.

Company B is an example of the majority companies that evaluate their strategy according to financial measures:

“According to the quarterly financial statement made by accounting department and customer feedback collected by marketing department, the top managers would discuss whether to continue or stop with the strategy.” (Vice General Manager & Marketing Manager – Company B)

While in company F, the product quality is also paid attention to during the process of strategy evaluation:

“The sales manager collects feedback from the market. At the meanwhile, the production manager and the R&D manager are responsible for evaluating the product quality and performance.” (General Manager – Company F)

In addition, company G might outsource help from other organizations in special cases:

“I am responsible for strategy evaluation. The managers of sales department will assist me to evaluate and discuss whether to modify the strategy or not since they are expertise in relevant areas. Regarding the difficult condition, we are going to ask help
from partner organizations to evaluate our strategy such as universities or foreign companies.” (General Manager – Company G)

- **Strategy Control**

Under the situation that if the result doesn’t meet their expectations, we found out that most of the SMEs will stop the project right away and transfer to other projects in order to avoid big loss since they only have limited resources and to spend on adjusting and improving that project. A few of them stated that within allowed time period they might consider about improving the product or promotion.

![Figure 8: Strategy Control in the Studied SMEs](image)

Company H is one of the companies that choose to stop the project when result doesn’t meet their expectation so that they can shift the resources to other profitable projects to avoid further loss:

“If the result of the project doesn’t meet our expectation, the leader of each department will review and improve the production process to stimulate the cooperation effectiveness between departments. But if we have already spent a lot of time on this project and the result still cannot meet the expectation, the general manager and vice manager will immediately make the decision to stop the production, and shift the resources to high output and high profit project in order to reduce further loss. (General Manager – Company H)

In addition, the vice general manager of company A has given some examples that in which cases they would abandon the strategy:

“Our normal solution is abandon. For instance, if the demand for the product is lower than expectation, market demand is lower than order, or the technical difficulty is higher than expected, or the market doesn’t accept the new product, we would
abandon the further implementation of the strategy. But if the situation is among these three aspects, including: finished product rate lower than 90%; no inquiry for the new product; loss resulted by equipment which is out of date, than it is vital for us to take measures to improve it.” (Vice General Manager – Company A)

Moreover, the CEO of company J has shared a past experience regarding their failure in the process of strategy control, and he has briefly analyzed the reason as well as their current strategy regarding this process:

“In year 2011, we have met this problem several times that result doesn’t meet our expectation. The primary reason was that we mistakenly estimated the increment speed of our purchasing orders. We blindly pursue ‘high profit within short time’ so that some important factors were overlooked. Therefore, in our future business cooperation, we will at all times ensure the product quality first, and make profit at the right time.” (CEO – Company J)
5. Discussion

This chapter provides the discussion of the empirical findings from the previous chapter. The first section explores the managers’ perception toward environmental scanning and environmental factors in the studied firms, as well as in which form do they carry out environmental scanning. The second section explores the degree of formality of business planning and the employees’ involvement in these SMEs. The third section discusses about leadership, organizational structure and human resources issues in the strategy implementation process in the studied firms. And finally the fourth section examines how strategy evaluation and control is carried out in these firms. Based on the research objectives of this study, ten propositions are formed up by combining the findings and theoretical frameworks.

5.1 Environmental Scanning

As the first stage in the strategic management process, the scope and intensity of environmental scanning is important for a company’s overall business strategy (Karami, 2007). Scholars in previous studies have found that more and more of the large enterprises have a formal process for collecting as well as analyzing information toward the external environment so that they can develop strategies that fully incorporate opportunities and threats with their strengths and weaknesses to maintain a competitive position (Inkpen, 2000). Therefore, in this research the question has been raised that whether the Chinese manufacturing SMEs also perform systematically to gather and analyzing the environmental factors. The findings discovered that most of the senior managers in the studied SMEs perceive environmental scanning as an important strategic activity which plays a significant role in the strategy formulation process. However, rather than formal information-seeking through external sources, most of them prefer to acquire the information through personal sources (such as family members and friends) and from internet and magazines which are much easier and lower cost. Furthermore, it was noticed that there is a positive relationship between the formality of environmental scanning and the SMEs’ company size. For instance, in company G and company N which have significantly larger number of employees and higher amount of turnover, the environmental scanning systems are more formal than in other smaller firms, usually they have specific people or departments responsible for data collection, and they even have some information systems installed within the company to reach information sharing within the whole organization; also the managers in these two companies are putting more emphasize on formal analysis of the data than the others.

Proposition 1: Managers in the Chinese manufacturing SMEs perceive
environmental scanning as an important element to formulate business strategies. However, they prefer informal rather than formal methods to collect and analyze the information. Moreover, when the size of the companies increases, the environmental scanning systems tend to be more formal.

When we were testing the managers’ awareness of internal and external factors (SWOT), it has been discovered that majority of the respondents consider the strengths and opportunities are the key factors which determine the development of their business strategies, while the factors of weakness and threats don’t influence their decision-making in a large extend. By further talking with the managers, one important reason behind this is due to the fact that the CEOs of SMEs are constrained by their high involvement in the companies’ daily operations. Therefore, they don’t have much time to thoroughly or frequently scan the environments. Once they see an opportunity which can be utilized by their company strengths, they may quickly take actions to grab the opportunity instead of do more analysis into the risks and weaknesses. However, there can be a significant risk if the SMEs not paying equal attention to the aspects of risks and weaknesses once uncertain situation happen.

The environmental factors (PEST) were also examined in this research by evaluating the senior managers’ perception of the impact of the four factors on their companies’ business strategies. All of the respondents have expressed that the economic situation is greatly affecting the development of their business strategies, while political factors are also considered to be an important factor that impact on their strategy development. In contrary, an interesting finding is that only 6 of the respondents indicated that the technological issues affect their firm’s strategy. This is in line with the fact that today within the Chinese manufacturing industry, technical standards is still not up to the mark, and there are not many professionals skilled in the technical know-how (economywatch.com, 2010). Many of the factory works are still being done by the cheap labor force, especially in the small and medium sized firms which are difficult to reach economic scale by mass production with machinery. Therefore, un-surprisingly, these SMEs would not be significantly influenced by technological changes. Besides, the social trends are not considered by most of the respondents as an important factor to affect their strategy making.

Besides, Porter’s five forces model were employed to examine to what extend do the factors within the industry affect these companies’ business strategies. According to the result, bargaining power of buyer, threat of substitutes and rivalry among existing firms are explained by the managers to have great impact over their businesses while threat of new entrants and bargaining power of supplier are not that influential. It is in line with the market situation. Within one year (2010), there were
more than 6 million manufacturing SMEs registered in China (Zhao, 2010). It can be imagined that the competition in this market is extremely fierce. If one company sets up a higher price, the buyers can easily shift to others who offer a lower price. This is basically the reason why the bargaining power of buyer has a big pressure on the SMEs, especially on those that can never reach the economies of scale. Similarly, a significant portion of the interviewees consider the bargaining power of suppliers have very slight impact on them since they can purchase from other suppliers with lower prices.

**Proposition 2:** Senior managers of the Chinese manufacturing SMEs put more emphasize on their internal strengths and external opportunities than the weaknesses and threats when developing their business strategies since they are constrained by their involvement in the companies’ daily operations.

**Proposition 3:** The degree of impact of the environmental factors on the Chinese manufacturing SMEs’ strategy formulating is ranked as: economic > political > technological > social.

**Proposition 4:** The degree of impact of the five forces factors on the Chinese manufacturing SMEs’ strategy formulating is ranked as bargaining power of buyer > rivalry among existing firms > threat of substitutes > threat of new entrants > bargaining power of supplier.

5.2 Strategy Formulation

Regarding strategy formulation, 73% of the investigated SMEs have established business planning systems in their companies, while only 27% of them have neither formal nor informal business planning. This reveals that within Chinese manufacturing SMEs, a significant amount of them perceive formulation of strategies as important. According to previous research done by Shuman, Shaw and Sussman (1985) that due to the size, nature of activities and entrepreneurship of small firms, a formal strategy formulation and implementation cannot bring benefits to them; instead, informal planning is more appropriate. The finding of this study toward Chinese manufacturing SMEs is in line with this argument. Based on the degree of business planning, the studied SMEs can be categorized into three groups: no planning, informal planning and formal planning (Table 7). Firms in the first category have no planning activities at all. Firms in the second category ‘informal planning’ tend to stress on short term objectivities and they are operationally oriented. This category occupies a majority portion of the studied SMEs. Finally, only 2 firms fall into the third category of ‘formal planning’ that have emphasize on long term planning and formal strategic planning. However, whether a formal strategic planning can bring
more benefit to SMEs is still a thorny issue that has been debating by many scholars. Some argue that a formal strategic planning can provide a systematic structure for decision making, allowing the senior managers in SMEs to take a long term view, so as to benefit the SMEs (Robinson & Pearce, 1984); while others claim that formal planning is a high-level and conceptual activity which is only suit for large firms, so that it has no benefit to small firms (Schwenk & Shrader, 1993). In this study, it is difficult for the authors to conclude whether the Chinese manufacturing SMEs should adopt formal or informal planning. However, the findings have revealed a positive relationship between the formality of strategy formulation and firm size as well as a positive relationship between the formality of strategy formulation and export activities. Accordingly, the strategy formulation is more formal when the size of the firms increases. Besides, the firms that have more international businesses tend to employ more formal strategic planning mechanisms.

<table>
<thead>
<tr>
<th>Forms of Planning</th>
<th>Firm Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non Planning (27%)</td>
<td>10-50 employees</td>
</tr>
<tr>
<td>Informal Planning (60%)</td>
<td>51-500 employees</td>
</tr>
<tr>
<td>Formal Planning (13%)</td>
<td>501-900 employees</td>
</tr>
</tbody>
</table>

Table 7: Formality of Business Planning and Firm Size

**Proposition 5:** Strategic planning tends to be more stressed on short term objectivities and is operationally oriented in Chinese manufacturing SMEs. When the size of the companies increases, the strategy formulation activities tend to be more formal. The companies with higher involvement in export activities tend to employ more formal planning mechanisms.

Regarding the strategic planning, another interesting finding is that the majority of the respondents stated that the senior managers or top management are the main groups involved in making the strategic business plan. However, in only a few of the studied SMEs, the middle management is also involved in preparing the strategic plans. This finding further proved many previous studies regarding this aspect. For instance, in the study done by Goodwin and Hodgett (1991), the senior managers in Australia SMEs are the group of people that drive the process of strategic planning.

**Proposition 6:** The involvement of senior managers is very strong in the strategy formulation activities in Chinese manufacturing SMEs.

### 5.3 Strategy Implementation

Strategy implementation involves a series of activities and choices required for a strategic plan, and it is the process of putting the formulated strategies and policies
into action (Carpenter & Sanders, 2009). From earlier researches, within SMEs, the
top management who are the key strategic makers has more influence on
implementation of the strategy, whereas their managerial skill is significantly
important (Karami, 2007). The empirical findings of this study have further verified
this case in Chinese manufacturing SMEs. Among the firms that have been
investigated, due to their flat organizational structure, they all have very few levels in
decision-making, which in other words, they have highly centralized decision-making.

It resulted that only the senior managers or the project managers know the scope of
the strategy and understand what they expect to achieve, consequently the instructions
are transmitted top-down to the subordinates for implementation without giving them
an in-depth understanding of the comprehensive situation and the context they operate
in. Similarly, when conflicts or problems occur in the companies, the interviewees
reflected that the senior managers or the CEO are leading the key role and they
usually deal with it based on their past experience and own knowledge. Therefore, the
top executives in the Chinese SMEs must be fully concerned with all areas that are
important for strategy implementation so as to exercise appropriate leadership since
they are the essential determinant for the successful implementation of the formulated
strategies.

**Proposition 7: The flat organizational structure in the Chinese manufacturing
SMEs decides the high degree of subjectivity of top management, which leads to the
great importance of the role of top management in the process of fully utilize and
implement the formulated strategies.**

However, the findings also revealed a potential negative consequence of the high
degree of senior managers’ subjectivity in these SMEs, which is miscommunication
and confusion toward the strategic plans among other levels of employees, as well as
conflicting objectives in the process of implementation. Lee, Lee and Wu (2010) have
discussed that human resource management (HRM) is a useful tool to direct all
employees toward the same strategic objectives, so that it is a factor which can help
SMEs to effectively implement strategic plans. In this regard, the senior managers in
Chinese SMEs can consider to involve HRM in the process of formulate and
implement strategies to ensure effective strategy implementation.

Another important characteristic regarding strategy implementation deduced
from the studied SMEs is that once a strategy is formulated, it has always been put
into action very quickly without further verification. This situation is commonly exist
in many Chinese SMEs due to the reason that the senior managers in SMEs are
usually lack of managerial time to do it by themselves, and also lack of the financial
resource to outsource a third party. However, the companies can suffer vital loss for
not doing this. For instance, in the interviewed companies, Company A has invested a
lot in developing the Middle East market in the past few years, but both the political and economic situation in this region turned out to be extremely bad at this moment. They are not only unable to go any further with this project, but also not affordable to abandon it to develop a new market. Therefore, it is very crucial for the SMEs to verify the strategies before implementation otherwise once the resources of human, technology as well as assets are invested, it is not easy for them to alter and re-start.

Proposition 8: Strategy verification before implementation is crucial for SMEs although difficult in order to avoid vital failure.

5.4 Strategy Evaluation and Control

Although strategy evaluation and control is the last stage in the strategic management process after the strategic plans have been implemented, it cannot be ignored by companies of any sizes since it can pinpoint weaknesses in the implemented strategies (Karami, 2007). Usually the three aspects should be considered by managers: the quality of product, customer demand and service (Wheelen & Hunger, 2002). However, unlike the conceptual model of strategy evaluation and control process that has been described in the literature review, this process in the studied Chinese SMEs is discovered to be carried out in a much more simplified way. The top managers normally establish a standard for the sales volume. If the actual sales meet this standard then the strategy is considered as successful, or the vice versa. Only two companies (F and I) out of fifteen mentioned that they also review the product performance either through their technical employees or outsource experts.

Proposition 9: Strategy evaluation process in the Chinese manufacturing SMEs is in a simple and informal manner while only financial measures are employed.

Another interesting finding regarding strategy evaluation and control in the Chinese SMEs is that majority of them choose to directly stop the project when the actual performance doesn’t meet the standard, due to the reason that the SMEs usually don’t have enough time to check what went wrong and to take corrective actions. If they do this, they won’t have resources to support other projects and operations within the company. Therefore, they have to decide to stop it immediately in order to shift the resources to other profitable projects or new projects so as to avoid vital loss. From another aspect, due to the high flexibility in the Chinese manufacturing SMEs which benefited from the flat organizational structure, these firms’ decision-making toward strategy control is always fast and efficient since they only have one decision-making group which is constituted by the owner managers or the top management.
Proposition 10: Most of the Chinese manufacturing SMEs decide to stop the project instead of make adjustments when the performance outcome of the strategy implemented doesn’t meet their expectation. Furthermore, their size-enabled flexibility always allows them to make decisions or take actions promptly.
6. Conclusion

Finally, this is the concluding chapter which begins by reviewing the objectives of this study and then continues by answering to each of the research questions that concludes all of the major findings from this research. Furthermore, we are going to present our further discussion toward the content which has been discussed in the introduction chapter. In the last section, the limitations of this study are examined and the authors proposed some suggestions for future research toward this subject.

6.1 Conclusions

The purpose of this study is to find out whether and how strategic management is employed in the Chinese manufacturing SMEs. It also aims to explore the main characteristics of the strategic management process in these SMEs. Based on these objectives, research has been done by in-depth surveys to fifteen Chinese manufacturing SMEs, and the findings are concluded as below by answering to the three research questions:

1. **What are the senior managers’ attitudes toward strategic management in the Chinese manufacturing SMEs?**

   A significant amount of the senior managers in studied SMEs consider strategic management as an important mechanism for the development of their business strategies. They perceive the strategic management approach having significant impact on achieving their organizational objectives and increasing their firms’ operational effectiveness. Besides, all of the studied firms are employing strategic management techniques either formal or informal.

2. **What are the factors that impact the strategy development in the Chinese manufacturing SMEs?**

   The four environmental factors – PEST (political, economic, social and technological) are all considered by the senior managers in the investigated Chinese manufacturing SMEs to have somewhat impact on their strategy development, whereas economic and political issues are affecting them in a larger extend than social and technological issues.

   In regard of the factors within the industry, bargaining power of buyer, threat of substitutes and rivalry among existing firms are much more influential to the studied firms’ strategy development than the threat of new entrants and bargaining power of supplier.

   Besides, the research also found out that in the Chinese manufacturing SMEs, the
senior managers are more focusing on the internal strengths and external opportunities than the weakness and threats when formulating their business strategies.

3. What are the main characteristics of strategic management in the Chinese manufacturing SMEs?

The conceptual model of strategic management involves four processes which are environmental scanning, strategy formulation, strategy implementation and strategy evaluation and control (Analoui and Karami, 2003). According to this research, within the Chinese manufacturing SMEs, strategic management tends to be carried out in a simpler pattern.

Environmental scanning is perceived by the senior managers in the studied SMEs as a necessary and important element to gather the information for strategy formulation. Although they scan a wide variety of sources, they prefer informal methods from personal sources to seek information which are easier, cheaper and more efficient. Moreover, when the size of the firm increases, the environmental scanning systems within the firm tend to be more formal.

Strategy formulation in the Chinese manufacturing SMEs is mostly carried out with informal planning activities which is more stressed on short term objectivities and is operationally oriented. There is also a positive relationship revealed between the formality of strategy formulation and the firm size, which means when the size of the companies increases, the strategy formulation activities tend to be more formal. Furthermore, the companies with higher involvement in export activities tend to employ more formal strategic planning mechanisms.

In the firms investigated, they all have a flat organizational structure which brings high flexibility but at the same time results in the centralized decision-making. Senior managers in these firms have very high degree of subjectivity. Normally, they are the only or major group of people that are responsible for strategy formulation and implementation, but they seldom ensure the strategic context to be fully understood by the other levels of employees within the company. In this regard, the role of top management in these SMEs is of great importance to make the formulated strategies to be fully utilized and implemented.

Strategy evaluation process in the Chinese manufacturing SMEs tends to be simple and informal while only financial measures are employed by looking at the sales figures and market feedbacks. It was also found that most of them decide to stop the project instead of make adjustments when the performance outcome of the implemented strategies doesn’t meet their expectation due to the limitation of resources. An implication draw from this aspect is that strategy verification before
implementation is crucial for SMEs in order to avoid vital failure otherwise once the resources and assets are invested, it is not easy for them to alter. Besides, the findings also reflect that their size-enabled flexibility always allows them to make decisions or take actions promptly.

6.2 Further Discussion

As discussed in the introduction chapter, Chinese manufacturing SMEs play a significant role in terms of contribution to China’s economic growth. They also enjoy high rates of growth with the shares of GDP and their exporting activities are rising rapidly. Therefore, we consider that the Chinese government should mainly focus on the impact of Chinese manufacturing SMEs’ development on the country’s economy growth.

However, the China’s economy is centrally planned by the government, the activities and interactions between Chinese SMEs are managed by the governmental policies and legislations which lack incentives to promote the innovative and technological resources in the firms (economywatch.com, 2012). On the other hand, the weak linkages with the external market as well as the limitation on resources also blocked SMEs’ business development. In this regard, we are thinking that cluster based economy which means geographic concentration of interconnected Chinese SMEs in a particular field should be advocated and spread among the Chinese SMEs, by which the competitiveness and productivity of Chinese SMEs in this business sector can be increased (Zhao, 2010).

As mentioned in the discussion chapter, a big amount of Chinese manufacturing SMEs have flexible organization structure which allows their easy cooperation and linkages with external resources in the cluster so as to reposition the firms to higher status. On the other hand, within the network, it also allows the firms to interact with shared resources which include technological knowledge, skilled workers and common production capacity so as to improve their own technological and managerial levels. Furthermore, the SMEs can stimulate the internal cooperation in terms of information and technology transferring through the whole firms, spreading the missions/goals to the basic level of employees. In other words, the employees from the whole organization can participate in the process of strategy formulation and implementation.

In addition, most of the SMEs have informal ways to employ the strategic management. Within the cluster network, the SMEs have enough time to facilitate the network collaboration so as to develop their own efficient strategic management and put into practice to achieve business goals by particularly interacting with successful
firms and learning experiences from them. Furthermore, they have opportunities to get in touch with some foreign SMEs to understand foreign buyers’ demands hence to develop the foreign market. Therefore, we consider that the cluster based economy is necessary to be executed.

Besides, we think that the cluster based economy can also be introduced to other industrial sectors. It can not only increase the firms’ competitive capacity under the domestic as well as global market, but can also improve the China’s economic status to a higher level in the world.

6.3 Limitations and Future Research

The major limitation of the research is the scope of the study. This paper focuses on the SMEs in the manufacturing industry in the China. Hence, the empirical findings may not be generalized to the wider population of SMEs in China. On the other hand, it is difficult for us to generalize the broader results since the research has limited sample size. However, the fifteen interviews were conducted by digging the respondents’ answers into deep level, in order to ensure the quality, validity and generalization of the findings.

Considering the empirical findings and limitations of the study, some possibilities of future research are suggested below.

First, in order to eliminate the research limitation, the replication of the research should focus on a larger sample from wider types of industries. This could be carried out to explore further whether and how strategic management is employed in Chinese SMEs of different industries.

Second, the study emphasized to exploring characteristics of strategic management process in studied Chinese SMEs. However, by using the qualitative research method, the research cannot cover all the characteristics of the strategic management. Therefore, the further research could be carried out to study or explore some other aspects of the characteristics. For instance, what is the relationship between senior managers’ background and the formality of strategic management?

Third, the focus of this research is how the Chinese SMEs conduct strategic management activities. Therefore, it cannot draw conclusions regarding whether the way they are doing is good or not. In this regard, it would be valuable to conduct further researches which correlate strategic management and firm performance in order to examine which strategic management activities can result in higher firm performance and bring more benefits.
Appendix 1: Questionnaire

1. Do you think PEST (politic, economic, social, technology) factors have any impact on your company’s business and strategy? If yes, please specify or give an example.

2. Do you think the five forces - rivalry, the threat of substitutes, buyer power, supplier power, and the threat of new entrants have any impact on your company’s business and strategy? If yes, please specify or give an example.

3. Please rate the significance level of the impact of SWOT (strengths, weaknesses, opportunities, threats) in your company’s strategy development: not important, slightly important, important, and very important.

4. How does your company collect data of external and internal environmental factors (e.g. through survey, data base, government, etc.)? And how do you analyze the data?

5. What is the mission and goal of your company?

6. Do you have business plan in your company? If yes, what aspects do you include in the business plan?

7. Which people are involved in preparing your company’s strategic business plans?

8. What is the organizational structure of your company? How many hierarchical levels are there in the structure? What are the departments?

9. How do you implement strategies in your company? Which people are responsible for this? When you give instructions, whether and how do you ensure people from all levels understand the strategy?

10. Who is responsible for evaluating the strategy that has been implemented? And how do you do the evaluation?

11. What is your measure or solution when the result doesn’t meet your expectation?
References


