

Short Research Paper

The Strategy Implementation of Chinese SMEs in Different Economic Environment

Khaled Mohammed Alqahtani^{1*}

¹ Business School, Shaqra University, Saudi Arabia

* Khaled Mohammed Alqahtani, Business School, Shaqra University, 11662 Riyadh, P.O. Box 88058, Saudi Arabia

Received: March 28, 2022

Accepted: April 12, 2022

Online Published: April 28, 2022

doi:10.22158/jbtp.v10n2p9

URL: <http://dx.doi.org/10.22158/jbtp.v10n2p9>

Abstract

It is very important for all enterprises to adjust their strategy implementation in different economic environment. The adoption of appropriate strategy will help enterprises to fulfill different requirements from the changing environment and pursue the profit-maximization. This research identifies the strategy implementation of Chinese SMEs at different economic stages from 1978 to 2022.

Keyword

Chinese SMEs, Economic Environment, Strategy Implementation, Defensive Strategy, Analysis Strategy, Prospective strategy

1. Introduction

SMEs in China have continually changed their strategies in order to adjust to a varying economic situation. In general, there are three generic strategies applied by Chinese SMEs in the last five decades, namely defensive strategy, analysis strategy and prospective strategy.

2. The Defensive Strategy

The defensive strategy is shortsighted, conservative and risk-averse compared to the analysis strategy and prospective strategy. The defensive strategy usually attaches importance to strengthening the existing production lines and market niches, which enables SMEs to standardize and normalize the current producing and marketing situation. In general, the defenders would like to “wait and see” rather than “jumping on the boat” as prospectors in order to avoid the uncertain changes and risks.

3. The Prospective Strategy

The prospective strategy allows enterprises to constantly seek a new business opportunity, which includes changing production lines, initiating new products, providing new services, and generating new market niches. In a transitional economy, the companies who adopted prospective strategy will predict business changes ahead of their competitors and actively search for new approaches to deal with their business variations. Enterprises who applied prospective strategy can acutely identify more external threats and opportunities, and finally acquire more profits from such a transitional environment than less-proactive firms.

4. The Analysis Strategy

The analysis strategy is a hybrid from prospective strategy and defensive strategy, which satisfies the requirements from both old and new environments. More precisely, the analysis strategy not only focuses on the extant situation of production and market, but also reacts to a new environment change and explores a new opportunity.

5. The Strategy Implementation in the First Economic Stage (1978-2000)

When the economic and institutional environment transformed from a centrally-planned economy into a market-oriented economy in 1978, it was regarded as volatile because of uncertain market risks and political arbitrariness. Moreover, there was intensive and hostile competition in China as a result of the deregulations and the lagged legal system. This was harmful for Chinese SMEs to grow. As the strong buffer provided by defensive strategy, SMEs in China were apt to implement defensive strategy to avoid unpredictable risks in the early stages of economic reform. On the other hand, Chinese SMEs who employed the defensive strategy would tend to cost-saving. As usual, these SMEs such as Original Equipment Manufacturer (OEM) stuck to the existing products, processes, and operations, which blocked their innovation capability like the creative production. However, with the increasing costs of human resources and raw materials as well as the reinforcement of innovation awareness, more attentions have been paid to the innovation improvement, resulting in a gradual replacement of the defensive strategy from 1978 to 2000.

6. The Strategy Implementation in the Second Economic Stage (2001-2018)

The increasing marketization and internationalization were triggered by the accession to WTO in 2001. SMEs in China developed from the traditionally passive and defensive strategy, and they were inclined to adopt more aggressive strategies. However, according to Ahlstrom and Bruton, the business environment for Chinese SMEs was still restricted by some institutional and non-marketing impacts. SMEs had to spend their limited resources on non-business practices like gift-giving and banquets to make a good connection and relationship with the government, which might provide a buffer for their weak legitimacy in the market. This was seen as a hindrance for the progress of SMEs and impeded Chinese SMEs practicing their business more proactively. Additionally, SMEs in China suffered from the 2008 global financial crisis. Therefore, compared with the aggressively prospective strategy and passively defensive strategy, the analysis strategy was adopted by most Chinese SMEs from 2001 to 2018.

7. The Strategy Implementation in the Third Economic Stage (2019-2022)

The business performance of Chinese SMEs has been influenced dramatically due to the Covid-19 pandemic and weak economic recovery. The effectiveness of analysis strategy, including refining the existent producing and marketing situation as well as reacting to new environment changes, is still working for SMEs in China to get out of this survival crisis.

On the other hand, some strong SMEs with less effects or good recovery, intend to grow their business by innovation, expansion or differentiation. Generally, these SMEs with efficient production, good market planning and steady consumers help them to gain better performance than others. Furthermore, they are more likely to offer new products or services, update their production facilities and strategically reduce business procedures which in a mature or declining stage of production life cycle.

As a result, these SMEs implement the prospective strategy. This enables them to investigate new business opportunities as well as cope with negative environment influences.

8. Conclusion

In summary, the role of analysis strategy and prospective strategy has been increasingly crucial for Chinese SMEs since 2001. Most of the SMEs in China have changed from the adoption of defensive strategy to analysis strategy and prospective strategy in the second and third stages of economic development.

References

- Ahlstrom, D., & Bruton, G. D. (2002). An institutional perspective on the role of culture in shaping strategic actions by technology-focused entrepreneurial firms in China. *Entrepreneurship Theory and Practice Summer*, 26(4), 53-69. <https://doi.org/10.1177/104225870202600404>
- Ahlstrom, D., & Bruton, G. D. (2004). Guest editors' introduction to special issue. Turnaround in Asia: Laying the foundation for understanding this unique domain. *Asia Pacific Journal of Management*, 21(1), 5-24. <https://doi.org/10.1023/B:APJM.0000024075.29719.4f>
- Grant, R. M., & Baden-Fuller, C. (2004). A knowledge accessing theory of strategic alliance. *Journal of Management Studies*, 41(1), 61-84. <https://doi.org/10.1111/j.1467-6486.2004.00421.x>
- He, Z., & Gu, Y. (2014). The "thruster" for SMEs' entry of international market: The documentary of the first five years of financing SMEs to explore international markets. *Economics Daily*, January 18.
- Lumpkin, G. T., & Dess, G. G. (1996). Clarifying the entrepreneurial orientation construct and linking it to performance. *Academy of Management Review*, 21(1), 135-172. <https://doi.org/10.2307/258632>
- Luo, Y., & Park, S. H. (2001). Strategic alignment and performance of market-seeking MNCs in China. *Strategic Management Journal*, 22, 141-155. [https://doi.org/10.1002/1097-0266\(200101\)22:2<141::AID-SMJ151>3.0.CO;2-O](https://doi.org/10.1002/1097-0266(200101)22:2<141::AID-SMJ151>3.0.CO;2-O)
- Miles, R. E., & Snow, C. C. (1978). *Organizational Strategy, Structure, and Process*. New York: McGraw Hill. <https://doi.org/10.2307/257544>
- Peng, M. (2002). Towards an institution-based view of business strategy. *Asia Pacific Journal of Management*, 19(2-3), 251-267. <https://doi.org/10.1023/A:1016291702714>
- Shortell, S. M., & Zajac, E. (1990). Perceptual and archival measures of Miles and Snow's strategic types: A comprehensive assessment of reliability and validity. *Academy of Management Journal*, 33, 817-832. <https://doi.org/10.5465/256292>
- Tan, J. J., & Litschert, R. J. (1994). Environment—Strategy relationship and its performance implications: An empirical study of the Chinese electronics industry. *Strategic Management Journal*, 15(1), 1-20. <https://doi.org/10.1002/smj.4250150102>
- Tan, J., & Tan, D. (2005). Environment—Strategy co- and co-alignment: A staged model of Chinese SOEs under transition. *Strategy Management Journal*, 26, 141-157. <https://doi.org/10.1002/smj.437>
- Tang, Z., & Tang, J. T. (2012). Entrepreneurial orientation and SME performance in China's changing environment: The moderating effects of strategies. *Asia Pacific Journal of Management*, 29, 409-431. <https://doi.org/10.1007/s10490-010-9200-1>